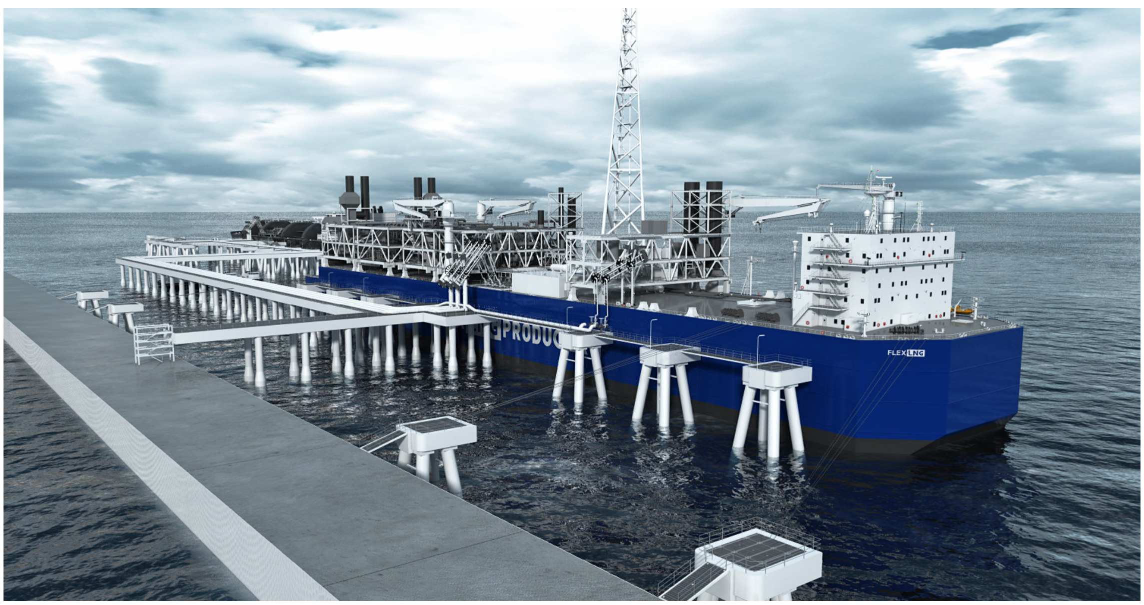
FLEX LNG Group

Consolidated and Company Annual Report and Financial Statement 2011



General Information, FLEX LNG Ltd

Directors
David McManus (Chairman)
Philip Fjeld
Scott Pearl
Christopher Pittinger
Ian Beveridge
Eiji Wakiwaka
Aoki Hiromichi

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FLEX LNG

Chairman's Statement

History and Background

The FLEX LNG Group ("Group") was founded with the purpose of producing liquefied natural gas ("LNG") offshore by commercialising floating LNG production units. FLEX LNG has aimed to do this through the combination of its vessel design (using sloshing resistant SPB containment system) and application of existing liquefaction technology. The Group has placed orders for four LNGP vessels ("FLEX LNG Producers") from Samsung Heavy Industries Co., Ltd ("Samsung"). The Group has also entered into an EPCIC contract with Samsung for the topside liquefaction facility for the FLEX LNG Producer no. 1.

The FLEX LNG Producer is intended to be an offshore LNG production vessel, which will pre-treat, liquefy, store and offload LNG. The feed gas may be supplied either directly from a natural gas field, from a wellhead platform, as associated gas from a nearby oil FPSO, or from an onshore natural gas source or pipeline. The overall design principle for the FLEX LNG Producer is intended to maximise the use of proven and robust technologies to achieve a safe and reliable concept. Focus has been on simplifying the design and removing unnecessary complexity for successful implementation of onshore technology into a marine environment.

From its establishment, the vision of the Group has been to be an early mover in owning and operating floating LNG production units. As the market for floating LNG production has failed to mature as quickly as the Company had expected, and as described further below, the Group is now also seeking exposure across the LNG value chain in order to maximise shareholder value.

Commercial Update

In April 2011 the Group announced that it had signed agreements for a floating liquefaction ("FLNG") project in PNG (the "Gulf LNG Project"). The Gulf LNG Project would have liquefied and exported gas from the Elk and Antelope gas fields in the Gulf Province of PNG. The objective had been for the Gulf LNG Project to have reached a Final Investment Decision ("FID") in December 2011. In December 2011 the agreements between the project partners were allowed to lapse, due to lack of progress with the Gulf LNG Project. With the front-end engineering and design ("FEED") work completed at that stage, the Company has taken the technical preparations necessary to support FID, if and when the project stakeholders are able to finalise project terms.

Given the uncertainty surrounding the timing of FID for the Gulf LNG Project, Samsung and FLEX have expanded the scope of their discussions to include negotiations for the alternative deployment, after deductions to be agreed, of the capital paid by FLEX LNG as instalments to Samsung ("Alternative Deployment"). The parties have included in such discussions the possibility of Alternative Deployment by FLEX to permit construction of LNG carrier and/or regassification vessels.

Chairman’s Statement

Market Update

At present, there are no commercially operational offshore liquefaction projects. However, in recent years, a number of proposed FLNG projects have been pursued. These have included Shell's Prelude project (Australia), Woodside's Sunrise project (Australia/Timor Leste) and Petrobras' Tupi pre-salt development offshore Brazil, with FID having been taken on the Prelude floating liquefaction project in May 2011. A range of national oil companies, majors and independent operators are involved, to a varying degree, in the potential development of Floating LNG over the coming years. Overall, there are good long term fundamentals for the offshore LNG industry, with prospective FLNG developments being identified in a number of locations from deep water to near shore solutions.

On the demand side there is a strong global picture with some commentators predicting demand for LNG to nearly double over the next decade, to over 400m tonnes a year. This rise is being driven by a number of factors; the effects of the Fukushima disaster, which has encouraged Japan to switch from nuclear to gas; a long-term increase in European demand as North Sea supplies decline and countries such as Germany back away from atomic power; and the emergence of LNG buyers in China, India, the Middle East and Latin America. Additionally global LNG trade continues to grow at a faster pace than both overall demand for natural gas and volumes transported by pipeline, with LNG accounting for around 10 percent of the market.

The Path Ahead

The Company is currently focused on completing the restructuring negotiations with Samsung. It is hoped this will then enable the Company to move forward with the Alternative Deployment and to also allow the Group’s FLNG solution to be further developed and marketed to customers. I believe there are currently a number of opportunities for the Group to use the Company’s expertise and ability to assist resource owners to develop and monetise their projects.

David McManus
Chairman

BOARD OF DIRECTOR'S REPORT 2011

Business update
FLEX LNG is an innovative company founded with the purpose of producing LNG offshore by commercialising what could be amongst the world's first LNG Producers. The major activity in 2011 related to completion of FEED work on a potential LNG Producer unit for the Gulf LNG Project.

FLEX LNG believes it has one of the industry's more advanced FLNG concepts, where around 400,000 man hours have been invested in the development of the LNG Producer through all phases. The global energy industry's interest in floating liquefaction solutions continued to grow through 2011.

In April 2011 the Group announced that it had signed agreements with IOC, PACLNG and Samsung for a FLNG project in PNG with targeted start of operations in 2014. The Gulf LNG Project was expected to have liquefied and exported gas from the Elk and Antelope gas fields in the Gulf Province of PNG. Samsung undertook the FEED work for the hull portion of the FLNG unit; whilst a Worley Parsons led JV was responsible for the FEED work for the topside under contract with Samsung.

The objective had been for the Gulf LNG Project to have reached FID in December 2011. In December 2011 the multiparty agreements among IOC, PACLNG and Samsung and the framework agreement between FLEX and the sponsors of the Gulf LNG Project were permitted to lapse due to lack of progress by the Gulf LNG Project sponsors. FLEX LNG is currently unable to forecast the expected timing of a potential FID for the Gulf LNG Project.

With the FEED work that has been executed, the Company believes it has taken technical preparations necessary, to the extent possible at this stage, to support FID, if and when the project sponsors, the PNG Government and other stakeholders are able to finalise project terms. In the meantime the Company continues to provide ongoing technical assistance to IOC and PACLNG.

In light of the uncertainty surrounding the timing of FID for the Gulf LNG Project, the 2011 Preliminary Agreement between FLEX LNG and Samsung was allowed to lapse in early 2012 and the Company and Samsung have now expanded the scope of their discussions to include restructuring of existing contracts and negotiations for the Alternative Deployment, which would include the possibility of the construction of LNG carrier and/or regassification vessels. The Company continues to expect to conclude these negotiations over the coming months.

Given this, the Group has completed a review of the carrying amounts of the four LNG Producers, instalment payments and capitalised costs. Based on a preliminary calculation the Group has recognised an impairment write-down on the four units of $112.3m, additional details in note 8. The Company currently expects to have greater clarity as to the carrying value at the completion of negotiations with Samsung. The amount of capital transferred for Alternative Deployment will depend on a number of factors that are not directly under the control of the Group (including the commercial terms for the restructuring and Alternative Deployment options).

BOARD OF DIRECTOR'S REPORT 2011 (Continued)

Funding and Going Concern

In the event of a positive FID on the Gulf LNG Project, given the lapse of the 2011 Preliminary Agreement, the Company would need to agree a revised instalment profile with Samsung for the construction of the FLNG unit. The Company would then need to raise financing for both working capital and instalment payments, as necessary, to meet the agreed profile, including the final instalment.

In the event that Samsung and FLEX LNG agree to pursue an Alternative Deployment the Company expects there to be a number of financing alternatives for raising working capital and instalment requirements; this will depend, among other things, on the number of vessels ordered, the debt equity ratio, level of instalments available for redeployment, economic terms of utilisation and final capital cost.

In the meantime, at current run rates, the Company expects to have sufficient working capital into 2013.

In the event that no agreement is reached with Samsung on restructuring of the LNG Producer contracts and/or the Alternative Deployment, the Company will need to consider alternative options open to the Company as well as the timing for raising additional working capital.

In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable if at all.

In May 2011 the Company issued 11,315,080 shares to IOC and PACLNG at an average price of NOK 4.59 and thereby raised $9.3m of additional capital. In addition a short term loan of $10.0m was raised from Samsung and in 2012 the Company notified Samsung to set off the amount against the shipbuilding instalments paid in by the Company.

Considering the above and the risks noted below the Board believes that the going concern assumption currently remains appropriate for the Group.

Risks

The Company was founded in 2006 and had since its inception focused on the engineering and construction of the LNG Producer units. More recently, the Company has also focused on opportunities for Alternative Deployment. The Group's activities expose it to a variety of commercial, operational and financial risks, including market risks, credit risks and liquidity risks.

The Company has historically funded its operation from equity. Obtaining such financing may be subject to market risks and other risks that may influence the availability, structure and terms of such financing. When the financial markets do not function properly, this risk becomes particularly relevant for a capital intensive company like FLEX LNG, which is not in a position to support its new building program with cash flow from operations. The Company has sought advice and believes that additional project loan finance would be available, if suitably structured commercial contracts are obtained. In the historical contracts there are remaining commitments of $2,500m to Samsung, which the Company is looking to restructure as part of the Alternative Deployment of capital.

BOARD OF DIRECTOR'S REPORT 2011 (Continued)

Risks (continued)

There can be no assurances that delays and cost overruns will not occur and such events, if occurring, could have an adverse impact on the Company's financial position.

In relation to the current restructuring negotiations with Samsung there can be no assurance that agreement will be reached or that it will be reached in a manner that is favorable for the Company. In the event no agreement is reached with Samsung on restructuring of existing contracts and/or the Alternative Deployment of its invested capital, the Company will need to consider the alternative options open to the Company as well as the timing for raising additional working capital. A summary of the current Samsung contractual position is provided in note 16.3

Additional detail on working capital requirements and analysis of risks to the Company is provided in accounts notes 1.4, 8, 16, 18, 19, and 20 and Corporate Governance section 10.

Income Statement and Balance Sheet

During the year the Group completed the FEED for the Gulf LNG Project. The costs capitalised in the year on the four units were $23.5m (2010: $12.6m). The cash balances at 31 December were $14.8m (2010: $9.9m). In the twelve months in 2011 the operating cash inflow was $0.5m (principally the operating loss, working capital movements and a short term loan of $10.0m); investing activities outflow $23.5m (FEED costs); and financing activities inflow $27.9m (proceeds from a share subscription by IOC and PACLNG, and deferred payments on the FEED costs). The retained loss for the year was $136.0m (2010: $108.9m), which has been transferred to reserves. The loss for the year included an impairment write down of $112.3m (2010: $97.8m).

During the year the FLEX LNG Ltd (the "Company") has continued to hold the investments in its subsidiaries and managed the strategic direction of the Group. The investments and loans to subsidiaries in the year were $16.9m (2010: $16.6m). The cash balances at 31 December were $14.4m (2010: $9.1m). In the twelve months in 2011 the operating cash inflow was $12.7m (principally a short term loan of $10.0m and the non cash profit and loss accounting entries); investing activities outflow $16.9m (additional loans to subsidiaries), and financing activities inflow of $9.5m on the proceeds from a share subscription by IOC and PACLNG. The retained loss for the year was $119.7m (2010: $115.4m), which has been transferred to reserves. The loss for the year includes an impairment write down $109.4m on the inter group loans to the vessel owner companies following the impairment of the vessel assets values (2010: $114.3m). The Directors do not recommend the payment of a dividend.

The Board

There have been changes in the composition of the Board during the financial year. In March 2011 two additional Directors were appointed, Keith Meyer and Kathleen Eisbrenner, and in June 2011 Kathleen Eisbrenner resigned. At the 2011 AGM Keith Meyer, Anders Westin, James MacHardy and James van Hoften either did not stand for re-election or were not reappointed. The ASM appointed the following new directors, David McManus, Christopher Pittinger and Eiji Wakiwaka.

BOARD OF DIRECTOR'S REPORT 2011 (Continued)

Environmental Reporting
The company has an objective that all activities that are performed are to be carried out so as to minimise negative impacts to people and the environment. Given the pre-commercial nature of the operations there is currently minimal corporate impact on the environment. In 2010 the Group was certified by Det Norske Veritas to the ISO 14001:2004 standard, and also established a baseline of key environmental aspects which was used to target reductions throughout 2011.

Working Environment and Personnel
At the end of 2011, FLEX LNG and its subsidiaries had in total 39 employees and consultants, 32 men and 7 women. All personnel are employed either by FLEX LNG Management Limited, FLEX LNG Management (Norway) AS or FLEX LNG Management (Singapore) Pte Ltd. There have not been any serious injuries or accidents in the current or prior year. Total absence due to sickness has been less than 0.5% (2010: 0.4%) during the accounting year. FLEX LNG's Board of Directors currently consists of 7 men. The Company's policy prohibits unlawful discrimination against employees, on account of ethnic or national origin, age, sex or religion. Respect for the individual is the cornerstone of this policy and the Group also aims to treat its employees with dignity and respect.

Post Balance Sheet Events
There have been no significant post balance sheet events, other than those listed in note 17.

Corporate Governance
The Group is committed to good corporate governance; additional details may be found in the corporate governance report.

Board of Directors of FLEX LNG Ltd
26 April 2012

David MacManus (Chairman)

Aoki Hiromichi   Scott Pearl   Ian Beveridge

Eiji Wakiwaka   Christopher Pittinger   Philip Fjeld

Responsibility statement

We confirm, to the best of our knowledge that the financial statements for the period 1 January to 31 December 2011 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Board of Directors of FLEX LNG Ltd
26 April 2012

David MacManus (Chairman)

Aoki Hiromichi	Scott Pearl	Ian Beveridge
Eiji Wakiwaka	Christopher Pittinger	Philip Fjeld

Corporate Governance Report

1) Implementation and reporting on corporate governance

As a company incorporated in the British Virgin Island ("BVI"), the Company is subject to BVI laws and regulations. Additionally, as a consequence of being listed on Oslo Axess, the Company must comply with section 3-3b) of the Norwegian Accounting Act and certain aspects of Norwegian securities law and is also obligated to adhere to the Norwegian Code of Practice for Corporate Governance (the "Code of Practice") on a "comply or explain" basis. Further, the Company has in place a Memorandum and Articles of Association, which set forth certain governance provisions. The Norwegian Accounting Act is found on www.lovdata.no and the Code of Practice is found on www.nues.no.

The Group is committed to ensuring that high standards of corporate governance are maintained and is committed to high ethical standards in dealings with all stakeholders, including shareholders, debtors, customers, vendors and employees. Strong corporate governance principles help to ensure that the Groups' standards are applied to all its operations, and the Board has furthermore implemented a Code of Conduct and Ethics and the Company will also look to comply with the material aspects of the Code of Practice for Reporting IR Information. Additionally policies have been put in place to cover health and safety, quality and environment commitment including ISO 9001 and 14001. The Company believes that these policies broadly set out the Company's corporate social responsibility. Further information in this respect is available on www.flexlng.com.

The Board of Directors has based its corporate governance practices on the principles set out in the Code of Practice. However, since the Company is governed by BVI laws and regulations, and given the pre commercial nature of the Group's activities, certain practices are applied which deviate from some of the recommendations of the Code of Practice.

In the following sections, the Company's corporate governance policies and procedures will be explained, with reference to the principles of corporate governance as set out in the sections identified in the Code of Practice. This summary does not purport to be complete and is qualified in its entirety by the Company's Memorandum and Articles of Association, BVI and Norwegian law.

2) Business

The objective of FLEX LNG is to establish itself as a leading owner and operator of Floating LNG production units and associated activities, including LNG transportation. The objectives are within the framework of the Company's Memorandum and Articles of Associations, which may be reviewed at www.flexlng.com. The objectives stipulated in the Memorandum and Articles of Associations are as follows: 'commercial activity relating to securing hydrocarbon feed stock for floating liquefaction projects, constructing, owning and operating floating liquefaction vessels and/or LNG vessels and sales and marketing of hydrocarbons and business in connection therewith, including investing in other companies.'

The Group operates principally through its subsidiaries. The vision of FLEX LNG has been to become a leader in owning and operating floating LNG production units and associated activities. More recently, the Company has also focused on opportunities for Alternative Deployment. FLEX LNG seeks to avoid limiting itself to being a service provider but is also actively seeking exposure across the LNG value chain in order to optimise the value created using the company's LNG Producers (LNGP). The business principles are as follows;

- Protection of human lives and the environment and servicing our customers are the top priorities. By working with clients to jointly explore business opportunities FLEX LNG intends to develop long lasting relationships based on trust and a goal of creating economic value
- FLEX LNG will strive to provide superior shareholder returns
- FLEX LNG will aim to attract and retain highly qualified individuals through compensation packages that align employees and shareholders' interest
- Creativity and innovation spearheads the commercial and technical work conducted by FLEX LNG. In an effort to stay ahead of competition FLEX LNG will relentlessly drive for continuous improvements that permeate the FLEX LNG culture
- FLEX LNG emphasises integrity and honesty in the way it does business

3) Equity and dividends

Equity

The appropriate level of equity for the Group is evaluated by the Board on an ongoing basis, via reviews at the Board meetings. Total share capital at 31 December 2011 was USD 1,247,783.13, divided into 124,778,313 shares of USD 0.01 each. The directors believe this is currently satisfactory given the Group's business and objectives, but will be increased if the Company raises additional funds.

Dividend policy

As the Group has yet to produce stable cash flow, or to secure a definitive commercial contract, dividends will not be considered in the near term.

Corporate Governance Report (continued)

3) Equity and dividends (continued)

Equity mandates

As a BVI company it has 200m maximum of authorised number of shares per its Memorandum and Articles of Association. To issue new shares or increase the authorised number of shares requires an ordinary shareholder resolution. The authorised and issued share capital for the Group is detailed in the annual and quarterly reports which may be reviewed at www.flexlng.com.

In connection with issuance of shares in the Company, the shareholders have (except to the extent they are waived) pre-emptive rights to the new share on a pro-rata basis. Currently, the Board has not resolved and does not intend for the Company to acquire its own shares.

4) Equal treatment of shareholders and transactions with close associates

The Company has only one share class, with identical voting rights. All shareholders are treated equally and the Articles of Association do not contain any restrictions on voting rights. Where there is a need to waive the pre-emption rights of existing shareholders this will be justified at the time of approval or where based on an existing mandate justified in the stock exchange announcement in relation to the increase.

All transactions between the Group and its close associates as defined by the Group's Code of Conduct, are at arm's length and market prices. The Memorandum and Articles of Associations require Board members to disclose interests in transactions entered into with the Group. Where appropriate the Group ensures third party independent evaluation, where defined by the Code of Conduct. Any transactions between the Group and close associates will be detailed as related party transactions in note 15 to the financial statements.

5) Freely negotiable shares

With limited exception, all shares in the Company are freely negotiable, and the Articles of Association contain no form of restriction on the negotiability of the shares.

However, as a BVI company, and to protect existing Norwegian shareholders from adverse tax consequences in Norwegian Controlled Foreign Corporations Regulations, the Group may, in accordance with the Articles of Association, deny the transfer of shares which would lead to Norwegian ownership being deemed a Controlled Foreign Company. This type of restriction is normal for British Virgin Island and other low-tax jurisdiction companies listed on the Oslo Axess.

The founders of FLEX LNG have personally and through their wholly owned company Hansa LNG Ltd. entered into a lock-up agreement with the Company in respect of shares in the Company or financial interest therein, and have agreed not to directly or indirectly pledge, sell, or otherwise dispose of shares (or financial interest therein) held directly or indirectly by the founders personally or through Hansa LNG Ltd. until the later of (i) the delivery of the second vessel under the shipbuilding contracts with Samsung and (ii) 30 June 2011 (the "Lock-up Period"). The Shares held by the founders personally or through Hansa LNG Ltd. or financial interest therein cannot be pledged, sold or otherwise disposed of during the Lock-up Period without the written consent of the shareholders representing two-thirds of the total number of issued shares of FLEX LNG.

Furthermore, the shareholders of the Company have on the Annual General Meeting in 2011 and 2010 resolved that at least half of all of the remuneration for the directors for the two years shall be paid by the issue of new shares in the Company, that are to be subject to a lock-up. The shares issued as board remuneration for the 2011 year shall become unlocked on the first anniversary after their grant.

6) General meetings

The Annual General Meeting ("AGM") is the forum for the Company's shareholders to participate in major decisions, and is held each year. The Company's Articles of Associations require 14 days notice for Annual and Extraordinary General Meetings, rather than 21 days. Currently, given that the Company is pre-commercial, this shorter period is considered to be sufficient for shareholders to consider the matters being voted on. The notice for Annual and Extraordinary General Meetings shall include relevant material to enable the shareholders to make an informed decision. All shareholders are entitled to speak and vote at the General Meetings. The Board of Directors shall take steps to ensure that as many shareholders as possible can exercise their rights by participating in General Meetings, for instance by setting deadlines for shareholders to give notice of their intention to attend the meeting (if any) close to the date of the meeting as possible and by giving shareholders who are not able to attend the option to vote by proxy. The Board of the Company shall make arrangements for shareholders voting by proxy to give voting instructions on each matter to be considered at the meeting. The Board of directors and the Chair of the meeting will ensure appropriate arrangements for the General Meeting to vote separately on each candidate nominated for election to the Company's corporate bodies.

Corporate Governance Report (continued)

6) General meetings (continued)

The AGM shall be organised in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors will ensure that a member of the Board and the auditor will be available to answer questions. Also, the Board of Directors will endeavour to make arrangements for an independent Chairman for each General Meeting, for instance by arranging for the person who opens the General Meeting to put forward a specific proposal for a Chairman. The notice of the General Meeting as well as supporting documents will be made available at the website www.flexlng.com as well as www.newsweb.no where the decisions from the general meetings will also be made available.

FLEX LNG strives to maintain an open and fair dialogue with its shareholders through publishing of information, presentations and responding to questions from shareholders. The Company has not, however, taken specific measures for obtaining shareholders' proposals for matters to be proposed to the shareholders' meeting. In the view of the Company, the current shareholder structure, the shareholder representation, and the policy to communicate with shareholders is sufficient to ensure that shareholders may communicate their points of view to the executive management and the Board. In addition, given the Company's current development and given the good communications with shareholders, it does not believe that it is necessary for Directors, Nomination Committee and auditor to be physically present at the General Meetings, and that the 14 days notice is sufficient.

7) Nomination Committee

The Company operates a Nominating Committee, which is responsible for identifying and recommending board candidates to the AGM. The committee's obligations and responsibilities are established in the Company's Articles of Association and via procedures for the nomination committee, as approved by the AGM. Currently George Linardarkis, Jean-Francois Cristau and Marcus Hansson comprise the members of the Nomination Committee, and all members are independent of the Board and the executive management. All members are elected by the shareholders for a period until the 2012 AGM and their remuneration was approved at the AGM.

8) Corporate assembly and Board of Directors: composition and independence

As a BVI registered company with 39 employees and contractors at 31 December 2011, the Company does not have a corporate assembly.

The Company's Board of Directors currently comprises seven directors, of whom six are considered independent of executive management. Mr. P. Fjeld, the CEO of FLEX LNG Management Limited, is also serving as a director of the Company. Mr. P. Fjeld's position on the Board is considered to be important for ensuring that the Board is fully informed about the commercial activities of the management companies and also to cover an area of expertise, being knowledge of the new and developing LNG production market. To ensure that Mr. P. Fjeld's position on the Board does not cause any conflicts of interest, the Board has established sub-committees, in which Mr. P. Fjeld is not a member. Of the seven members, two directors are also associated with shareholders with holdings exceeding 10%; Mr. A. Hiromichi and Mr. S. Pearl. The composition of the Board of Directors, including the controls to avoid conflicts of interest, is in accordance with BVI company law, the Memorandum and Articles of Association and good corporate governance practice.

The Company endeavours to ensure that it is constituted by directors with a varied background and the necessary expertise, diversity and capacity to ensure that it can function effectively. The directors are elected by the General Meeting, for service periods of two years or such shorter period as stated in the relevant resolution. Directors may be re-elected and there is no limit on the number of terms that any one director may serve. Re-election of the current directors is due at the AGM in 2012. They may be removed by a majority vote at any time. Currently the Board has elected the Chairman, rather than the shareholders, given the Company's current development status the Company believe that this is satisfactory and that the Chairman can ensure that the board is effective in its tasks of setting and implementing the company's direction and strategy.

The directors are encouraged to hold shares in the Company, which the Board believes promotes a common financial interest between the members of the Board and the shareholders of the Company. In accordance with the General Meeting's resolution of 25 August 2011, the directors received 50% to 100% of their remuneration in shares for 2011.

All Directors participated in the physical Board meetings in 2011, on one such meeting a director joined by phone conference.

The current Board members are listed below:

Corporate Governance Report (continued)

8) Corporate assembly and Board of Directors: composition and independence (continued)

Mr. David McManus, Chairman (58)
Mr. McManus has served on the Board since August 2011, and was elected as chairperson in September 2011. An exceptionally experienced international business leader in the Energy Sector, with strong technical and commercial skills currently serving as Executive Vice Present and Head of International Operations for Pioneer Natural Resources, with offices in London, Tunis and Cape Town, focusing on exploration and commercialisation of reserves. Concurrently serving as Non Executive Director for two UK listed companies; Cape plc an energy service company, which has been involved as a contractor in more than 50% of the world's LNG facilities, including Sakhalin, RasGas, Qatargas, Damietta, Idku, North West Shelf, Pluto, Arzew and floating regasification in Italy; and Rockhopper Exploration plc an exploration company with assets in the Falkland Islands. 36 years experience in Technical, Commercial, Business Development, General management and Executive roles across all aspects of the oil and gas business, spanning the world, including; BG Group, ARCO, Ultramar, Shell and Fluor corporation. Mr. McManus is a graduate of Heriott Watt University, Edinburgh.

Mr. Scott Pearl, Board member (38)
Mr. Pearl has served on the Board since March 2007. Mr. Pearl is a Director of Investment Research at Seneca. In addition to FLEX LNG, Mr. Pearl serves on the Board of Directors of Altex Energy, Ltd., a developer of transportation solutions for oil bitumen in Alberta. Mr. Pearl’s experience includes the management of investments in both public and private debt and equity securities of energy companies, as well as providing equity research coverage to institutional investors in the electric sector. Mr. Pearl also has served as an advisor to numerous energy companies with regard to strategy, capital raising and merger and acquisition transactions. Prior to joining Seneca, Mr. Pearl was a Vice President of Equity Research at Credit Suisse First Boston. Previously, Mr. Pearl was an Investment Banker for energy companies at Credit Suisse First Boston and Lehman Brothers. Mr. Pearl began his career as a project financier for Chase Securities, Inc. Mr. Pearl is a graduate of the Wharton School of Business at the University of Pennsylvania.

Mr. Ian Beveridge, Board member (48)
Mr. Beveridge has served on the Board since October 2007. Mr. Beveridge is the CEO of the Schulte Group and has been associated with the Schulte group for 16 years, until 2006 as Managing Director. Before that Mr. Beveridge worked 3.5 years with Coopers & Lybrand in Johannesburg, leaving as Senior Supervisor. Mr. Beveridge obtained a Bachelor of Commerce (Honours) in 1987 and qualified as a chartered accountant in South Africa. Mr. Beveridge is also member of the Gard Board of Directors and the German Committee of Det Norske Veritas.

Mr. Aoki Hiromichi, Board member (53)
Mr. Aoki has served on the Board since July 2008. Mr. Aoki is a Managing Executive Officer of Kawasaki Kisen Kaisha, Ltd. ("K"Line) and is responsible for Energy Transport Sector including natural gas, FPSO, offshore support vessels, MODU and other floating units. During his 27-years career with "K"Line, he has been a Project Manager for LNG transport projects such as Qatargas, RasGas, Snøhvit, Tangguh and many others. He was also a board member of EnerSea Transport LLC until June 2008 having pursued the project development of CNG. Before joining LNG Group of "K"Line, he served "K"Line as Resident Representative in Rio de Janeiro and CarCarrier Group besides studying under the corporate scholarship in Business School of Syracuse University, NY and Law School of Tulane University, LA. He holds a Bachelor of Business Administration in 1981 from Shinshu University.

Mr. Christopher Pittinger, Board member (52)
Mr. Pittinger has served on the Board since August 2011. He is currently an independent strategic advisor to the Chief Executive Officers of Dolphin Energy Limited and Mubadala Development Company and Mubadala Development Company (both located in Abu Dhabi) and the Kazakh National Oil Company and several of its affiliates. Previously he was a partner at the law firm Shearman & Sterling, where he worked for 20 years. He specialised in oil and gas joint ventures, project development and financings, asset acquisitions and disposals, upstream production sharing and concession arrangements, oil and gas taxation and regulation, transport arrangements and downstream projects on the petrochemicals and refining sectors. He is a graduate of Boston College and holds a Juris Doctor Degree from the University of Virginia School of Law.

Mr. Eiji Wakiwaka, Board member (62)
Mr. Wakiwaka has served on the Board since August 2011. He has extensive LNG marketing and project execution experience in Asia. He is currently a Program Director for the Clinton Climate Initiative. Previously he was the President for BP Japan where he had overall responsibility for sales of BP and Castrol lubricants, Oil and Gas trading and strategic account management. He was also responsible for the BP Gas business in North Asia, covering the FID for the Tangguh project, LNG marketing and partner relationship management and other projects worldwide (Abu Dhabi LNG, Northwest Shelf, Bontang BTC pipeline and TKN BP). Mr. Wakiwaka holds a MBA from Harvard University and Bachelor of Commerce from Waseda University.

Corporate Governance Report (continued)

8) Corporate assembly and Board of Directors: composition and independence (continued)

Mr. Philip Eystein Fjeld, Board Member & Executive Management CEO (37)
Mr. Fjeld is the co-founder of FLEX LNG, which was established in August 2006 and is the CEO of FLEX LNG Management. Prior to joining FLEX LNG he held the position of Commercial Manager at Höegh LNG in Oslo, where he had responsibility for the commercial budget for two LNG carriers on long-term charters to gas majors. Business development work at Höegh LNG encompassed pre-qualification and offers in connection with standard LNG shipping tenders, structuring and negotiating LNG time charter parties and ship management contracts, ship-sale negotiations and marketing of FSRU conversions and regasification vessel projects. Mr. Fjeld has a nautical degree and has served at sea as a deck officer in the Royal Norwegian Coast Guard and in the Merchant Navy. Mr. Fjeld earned his Master's Degree in Strategy and Management from the Norwegian School of Economics and Business Administration.

The current Executive Management are listed below (details for Mr. Fjeld detailed above):

Mr. Trym Tveitnes, PhD, Chief Technical Officer (39)
Mr. Tveitnes is the co-founder of FLEX LNG, which was established in August 2006 and is the CTO of FLEX LNG Management. Mr. Tveitnes joined FLEX LNG from a consultancy in Bergen, Norway, specialising in onshore gas transportation and distribution. Prior to this he worked for the shipping company Höegh LNG in Oslo, focusing on concept development and technical specifications in connection with the Neptune SRV project as well as within Arctic LNG transportation. Mr. Tveitnes also has experience as Senior Engineer at Det Norske Veritas working on technological qualifications of containment systems for large LNG carriers and floating LNG import terminals. Mr. Tveitnes holds a MSc. in Naval Architecture and a PhD in Hydrodynamics from the University of Glasgow.

Jostein Ueland, Chief Financial Officer (32)
Mr. Ueland is the co-founder of FLEX LNG, which was established in August 2006 and is the CFO of FLEX LNG Management. Mr. Ueland has worked within the Investment Management Division of Goldman Sachs International in London and as an Equity Research Analyst in Enskilda Securities ASA in Oslo. He has first class experience in valuing companies and was responsible for the IPO research in relation to the listing of APL ASA, Sevan Marine ASA and Odfjell Invest LTD. Mr. Ueland earned his Master's Degree in Finance from the Norwegian School of Economics and Business Administration.

Capt. Gary Baron, Chief Operating Officer (53)
Capt. Baron, joined FLEX LNG Management in October 2008. He has 35 years of experience in the marine and offshore industry, including HSEQ management, FPSO and FSO operations and conversion projects, LPG/LNG operations, supply boat and ROV operations, and experience as pilot/loading master. Prior to joining FLEX LNG, he worked for Teekay Corporation in Canada for nine years in a variety of roles including LNG, CNG and offshore business development and HSEQ. Prior to joining Teekay, he worked for Woodside Energy and BHP Petroleum in Australia. Capt. Baron also holds an MBA in Maritime Management.

9) The work of the Board of Directors

The Board approves an annual budget plan for the business. In addition policies have been approved that cover the responsibilities of the Board and those of the CEO, of FLEX LNG Management Limited. Through the establishment of the Compensation, Technical, Audit, and Commercial Committees, the Board has delegated some of its work to these committees, yet it has retained the responsibility for overall decision making. The composition of the committees is as follows; Compensation – David McManus, Eiji Wakiwaka and Scott Pearl; Technical - David McManus, Aoki Hiromichi and James MacHardy; Audit – Ian Beveridge and Scott Pearl; and Commercial - David McManus, Christopher Pittinger and Eiji Wakiwaka. The committees perform the following roles; Compensation – to review and recommend remuneration for senior management; Technical – to review the technical designs developed by the Company and to challenge Management to achieve the optimal balance between cost and technical capability; Audit – to review the financial reporting and controls for the Group; and Commercial – to review commercial agreements at an early stage and to then advise Management and the Board. The Board is scheduled to meet in person approximately four times a year, and additionally approximately eight times by telephone conferences, but the schedule is flexible to react to operational or strategic changes in the market and Group circumstances. In the 12 months in 2011 the Board has convened more often.

The main responsibilities of the Board cover the following main areas; strategic planning and decision making for the executive management to implement; ensure Board instructions are complied with; remain well informed on the Company’s and group financial position; production of an annual work plan; ensure the adequacy of executive management and their roles are clearly defined; annually to review the most important areas of risk exposure, including risks and controls related to financial reporting; ensuring an appropriate system of direction, risk management and internal control is established and maintained; adopt guidelines for the frequency and policy for external financial reporting; and to agree on the dividend policy.

Corporate Governance Report (continued)

9) The work of the Board of Directors (continued)

The Chairman of the Board of Directors carries a particular responsibility for ensuring that the Board of Directors performs its duties in a satisfactory manner and that the Board is well organised. The Board has the overall responsibility for the management of the Group and has delegated the daily management and operations to the CEO, Mr. P. Fjeld, who is appointed by and serves at the discretion of the Board, and also reports to the Board. Further, the CEO of the management company, is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are properly managed. His powers and responsibilities are defined in more detail by the Board of Directors.

The CEO is supported by the other members of the executive management team that currently consists of Mr. J. Ueland (Chief Financial Officer), Mr. T. Tveitnes (Chief Technical Officer) and Mr. G. Baron (Chief Operating Officer). The executive management team has the collective duty to implement the Company's strategic, technical, financial and other objectives, as well as to protect and secure the Group's organisation and reputation.

In the event that the Chairman of the Board cannot attend a meeting or is conflicted in leading the work of the board, an alternate chairman will lead the meeting.

10) Risk management and internal control

The Board, in conjunction with the executive management, evaluates the risks inherent in the operations of FLEX LNG. Principal among these risks currently are those relating to construction; obtaining contractual counterparties; financing of vessel construction; settlement of the contract restructure with Samsung on reasonable terms; agreeing the level of remaining capital with Samsung on reasonable terms; achieving FID on the Gulf LNG Project, or agreement to the Alternative Deployment and the economics of such Alternative Deployment; the contractual consequences if this does not occur; potential Samsung claims under its agreement, with the Company; the political situation in PNG; any IOC/PACLNG contractual arrangements being on economically viable terms; obtaining finance and working capital at reasonable terms; and being able to secure employment contracts on reasonable terms for alternative vessels constructed by Samsung; retaining key staff, and general business, and financial risk. In addition the following risks inherent in the business plan are monitored: commodity prices, exchange rates, competition, the political and regulatory environment, counterparty performance, the potential growth of the business and the proposed application of new technology. The Board, working with the Audit Committee and through the annual audit process, ensures that FLEX LNG has reliable internal control and systems for risk management.

The Board is presented an annual budget at the end of the preceding financial year. Thereafter, the Board is presented with regular updates and a quarterly report identifying material variations from the approved budget. Explanations are obtained for material variances. The Audit Committee has the responsibility to evaluate risk exposure and internal control on an annual basis. The Board is also presented financial statements on a quarterly basis, which are reviewed with the executive management. FLEX LNG's annual accounts provide information on internal control and risk management systems as they relate to its financial reporting.

11) Remuneration of the Board of Directors

The remuneration of the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the Group's operations, and is disclosed in note 3 to the financial statements. Through the Company's remuneration of directors, part of which has historically been in stock, the Company has encouraged directors to own shares in the Company. The remuneration is not linked to the Company's performance. No non-executive directors have been granted share options and no directors are part of the incentive programs available for the executive management and/or other employees, other than Mr. P. Fjeld in his capacity as an employee of FLEX LNG Management Limited, details in section 12 below.

As a general rule, no directors (or companies with which they are associated) shall take on specific assignments for the Company in addition to their appointment as director. If such assignments are made, it shall be disclosed to the full Board and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board, any remuneration paid in addition to normal director's fees included.

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Corporate Governance Report (continued)

12) Remuneration of the executive personnel

The executive management's remuneration shall be determined by a convened meeting of the Board of Directors. The Board is advised by the Remuneration Committee as to the appropriate level of salary and benefits to pay. The committee shall when preparing the guidelines take into account the location of the management, the level of remuneration normal within the business of the Group, the phase of the Group's business and special characteristics of the different positions within the executive management. The guidelines shall include a summary of the characteristics of employee option schemes and bonus schemes applicable to the Group. The process aims to link the performance related element of the remuneration, (options, warrants and bonus) to value creation for shareholders. The current option program has been approved by shareholders with the allocation to staff determined by the Remuneration Committee prior to approval by the Board. The scheme was designed to align employees with shareholder value creation and to attract competent persons within the Group and to retain employees during the current phase of the business. The guidelines for the remuneration of the executive management were communicated at the 2011 AGM.

Further information on the remuneration of the executive management is contained in note 3, and options granted in note 13 to the financial statements.

13) Information and communications

FLEX LNG will ensure that the shareholders receive accurate, clear, relevant and timely information in accordance with legal requirements. Publication methods will be selected to ensure simultaneous and equal access for all equity shareholders; the information is mainly provided in English. Before the start of the year the Company publishes a summary of the key reporting and meeting dates for the following year.

The Board of Directors has adopted guidelines for the Company's reporting of financial and other information based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law. The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company group's contact with shareholders other than through General Meetings.

14) Take-overs

The Board of Directors has established guiding principles for how it will act in the event of a take-over bid. During the course of a take-over process, the Board has an independent responsibility to help ensure that shareholders are treated equally, and that the Company's business activities are not disrupted unnecessarily. The board of the target company has a particular responsibility to ensure that shareholders are given sufficient information and time to form a view of the offer. The Board of Directors and the executive management will not seek to hinder or obstruct take-over bids for the Company's shares or activities unless there are good reasons for this. In the event of any possible take-over or restructuring situation the Board of Directors will take particular care to protect shareholder value and the common interests of the shareholders. If an offer is made for the Company's shares, the Board of Directors shall issue a statement evaluating the offer and making a recommendation as to whether shareholders should or should not accept the offer. The Board will consider the appropriateness of arranging for a valuation by an independent expert. If the Board finds itself unable to give a recommendation to shareholders on whether or not to accept the offer, it will explain the background for not making such a recommendation. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the take-over bid unless approved by the General Meeting following announcement of the bid. Any transaction that is a disposal of the Company's activities should be decided by the General Meeting. According to the Norwegian Securities Trading Act, a mandatory offer for the remaining shares will be triggered if a shareholder becomes the owner of more than 1/3 of the shares in the Company.

15) Auditors

The auditor submits the main features of the plan for the audit of the Company to the Audit Committee on an annual basis. The auditor does not participate in meetings of the Board of Directors that deal with the annual accounts. Via the Audit Committee the auditor reviews any material changes in the Company's accounting principles, comments on any material estimated accounting figures and reports all material matters on which there has been disagreement between the auditor and the executive management of the Company. The company believes the auditor does not need to be physically present at the Company's AGM given the pre-commercial nature of the Group. Annually the auditor presents to the Audit Committee a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement. The Audit Committee, rather than the full Board, holds a meeting with the auditor at least once a year at which no member of the executive management is present. At present the Company believes this is sufficient given its size and enables the auditor to communicate with members of the Board.

Corporate Governance Report (continued)

15) Auditors (continued)

The Board of Directors have established guidelines in respect of the use of the auditor by the Company's executive management for services other than the audit. The Board of Directors shall report the remuneration paid to the auditor at the AGM, including details of the fee paid for audit work and any fees paid for other specific assignments.

Income Statement - FLEX LNG Group & Company

Year ended 31 December

(USD, 000)

	Note	**Group 2011**	Group 2010	**Company 2011**	Company 2010
Operating revenues		**0**	0	**0**	0
Other income		**0**	0	**0**	0
Gross revenues		**0**	0	**0**	0
Administrative expenses	*3*	**13,433**	10,214	**2,596**	1,370
Other operating costs	*8/2*	**112,291**	97,751	**109,398**	114,269
Operating loss		**(125,724)**	(107,965)	**(111,994)**	(115,639)
Finance cost	*4*	**(10,224)**	(938)	**(7,817)**	0
Finance income	*4*	**77**	222	**76**	214
Loss before tax		**(135,871)**	(108,681)	**(119,735)**	(115,425)
Income tax expense	*7*	**88**	173	**0**	0
Loss after tax		**(135,959)**	(108,854)	**(119,735)**	(115,425)
Loss for the year		**(135,959)**	(108,854)	**(119,735)**	(115,425)
Attributable to:					
Equity holders of the parent		**(135,959)**	(108,659)	**(119,735)**	(115,425)
Non-controlling interests		**0**	(195)	**0**	0
		(135,959)	(108,854)	**(119,735)**	(115,425)

Earnings per share (USD):		**Group 2011**	Group 2010	**Company 2011**	Company 2010
- Basic	*5*	**(1.13)**	(0.96)	**(1.00)**	(1.02)
- Diluted	*5*	**(1.13)**	(0.96)	**(1.00)**	(1.02)

Statement of Comprehensive Income - FLEX LNG Group & Company

Year ended 31 December

(USD, 000)

	Note	Group 2011	Group 2010	Company 2011	Company 2010
Loss for the year		**(135,959)**	(108,854)	**(119,735)**	(115,425)
Exchange differences on translation		**(14)**	(9)	**0**	0
Other comprehensive (loss)		**(14)**	(9)	**0**	0
Total comprehensive loss for the period		**(135,973)**	(108,863)	**(119,735)**	(115,425)
Attributable to equity holders of the parent		**(135,973)**	(108,668)	**(119,735)**	(115,425)
Non-controlling interests		**0**	(195)	**0**	0
		(135,973)	(108,863)	**(119,735)**	(115,425)

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Statement of Financial Position – FLEX LNG Group & Company

As at 31 December *(USD, 000)*	**Note**	**Group** **2011**	Group 2010	**Company** **2011**	Company 2010
ASSETS					
Non-current assets					
New building contracts	*8*	**342,412**	431,232	**0**	0
Plant and equipment	*9*	**178**	267	**0**	0
Investment – unquoted	*2*	**0**	875	**0**	0
Loans and investments	*2*	**0**	0	**342,462**	434,937
Total non-current assets		**342,590**	432,374	**342,462**	434,937
Current assets					
Other current assets	*10*	**1,049**	2,368	**320**	158
Cash and cash equivalents	*11*	**14,754**	9,889	**14,431**	9,065
Total current assets		**15,803**	12,257	**14,751**	9,223
TOTAL ASSETS		**358,393**	444,631	**357,213**	444,160
EQUITY AND LIABILITIES					
Equity					
Issued capital	*12*	**1,248**	1,130	**1,248**	1,130
Share premium	*12*	**561,946**	552,490	**561,946**	552,490
Other equity		**(246,788)**	(123,125)	**(217,694)**	(110,269)
Equity attributable to equity holders of the parent		**316,406**	430,495	**345,500**	443,351
Total equity		**316,406**	430,495	**345,500**	443,351
Non-current liabilities					
Other financial liabilities	*14*	**29,238**	10,937	**0**	0
Total non-current liabilities		**29,238**	10,937	**0**	0
Current liabilities					
Accounts payable		**198**	567	**64**	445
Accruals and other payables	*14*	**12,551**	2,632	**11,649**	364
Total current liabilities		**12,749**	3,199	**11,713**	809
Total liabilities		**41,987**	14,136	**11,713**	809
TOTAL EQUITY AND LIABILITIES		**358,393**	444,631	**357,213**	444,160

Board of Directors of FLEX LNG Ltd 26 April 2012

David McManus (Chairman)

Aoki Hiromichi   Scott Pearl   Ian Beveridge

Eiji Wakiwaka   Christopher Pittinger   Philip Fjeld

Consolidated Statement of Changes in Equity – FLEX LNG Group

(figures in USD,000)

For the year ended 31 December 2011	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent	Non controlling interests	Total equity
At 01.01.11	**1,130**	**552,490**	**(132,916)**	**(300)**	**10,091**	**430,495**	**0**	**430,495**
Loss for the period			(135,959)			**(135,959)**		**(135,959)**
Other comprehensive income				(14)		**(14)**		**(14)**
Total comprehensive income			(135,959)	(14)		**(135,973)**		**(135,973)**
Expenses related to share issue		(43)				**(43)**		**(43)**
Shares issued	118	9,499			7,545	**17,162**		**17,162**
Share-based payment (options / warrants)					4,265	**4,265**		**4,265**
Share-based payment (shares)					500	**500**		**500**
At 31.12.11	**1,248**	**561,946**	**(268,875)**	**(314)**	**22,401**	**316,406**	**0**	**316,406**

For the year ended 31 December 2010	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent	Non controlling interests	Total equity
At 01.01.10	1,127	552,243	(24,257)	(291)	7,819	536,641	33,147	569,788
Loss for the period			(108,659)			(108,659)	(195)	(108,854)
Other comprehensive income				(9)		(9)		(9)
Total comprehensive income			(108,659)	(9)		(108,668)	(195)	(108,863)
Exchange adjustments						0	(140)	(140)
Disposal of non controlling interest						0	(32,812)	(32,812)
Shares issued	3	282			(285)	0		0
Expenses related to share issue		(35)				(35)		(35)
Share-based payment (options / warrants)					2,367	2,367		2,367
Share-based payment (shares)					190	190		190
At 31.12.10	1,130	552,490	(132,916)	(300)	10,091	430,495	0	430,495

Statement of Changes in Equity – FLEX LNG Ltd

(figures in USD,000)

For the year ended 31 December 2011	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent	Non controlling interests	Total equity
At 01.01.11	**1,130**	**552,490**	**(120,360)**	**0**	**10,091**	**443,351**	**0**	**443,351**
Loss for the period			(119,735)			**(119,735)**		**(119,735)**
Total comprehensive income			(119,735)			**(119,735)**		**(119,735)**
Expenses related to share issue		(43)				**(43)**		**(43)**
Shares issued	118	9,499			7,545	**17,162**		**17,162**
Share-based payment (options / warrants)					4,265	**4,265**		**4,265**
Share-based payment (shares)					500	**500**		**500**
At 31.12.11	**1,248**	**561,946**	**(240,095)**	**0**	**22,401**	**345,500**	**0**	**345,500**

For the year ended 31 December 2010	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent	Non controlling interests	Total equity
At 01.01.10	1,127	552,243	(4,935)	0	7,819	556,254	0	556,254
Loss for the period			(115,425)			(115,425)		(115,425)
Total comprehensive income			(115,425)			(115,425)		(115,425)
Expenses related to share issue		(35)				(35)		(35)
Shares issued	3	282			(285)	0		0
Share-based payment (options / warrants)					2,367	2,367		2,367
Share-based payment (shares)					190	190		190
At 31.12.10	1,130	552,490	(120,360)	0	10,091	443,351	0	443,351

Consolidated Statement of Cash Flows - FLEX LNG Group

Year ended 31 December

(USD, 000)

Group	**Note**	**2011**	2010
Cash flow from operating activities			
Loss before tax		**(135,871)**	(108,681)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	*4*	**(77)**	(222)
Finance expense	*4*	**10,224**	938
Option and warrant costs		**4,444**	2,367
Share based payment expense		**49**	190
Depreciation		**146**	211
Impairment charge	*8*	**112,291**	97,751
P&L on asset disposal	*3*	**(1)**	(19)
Working capital adjustments:			
Decrease / (increase) in prepayments		**124**	(133)
(Increase) / decrease in trade and other receivables		**(329)**	140
Increase / (decrease) in trade and other payables[1]		**9,602**	(78)
		602	(7,536)
Income taxes paid		**(140)**	(324)
Interest received		**69**	304
Net cash flow from operating activities		**531**	(7,556)
Cash flows from investing activities			
Purchase of plant and equipment	*9*	**(57)**	(98)
Proceeds from sale of fixed assets		**1**	2
Payment on new building contracts & capitalised expenditure	*8*	**(23,471)**	(12,592)
Disposal / acquisition of subsidiary, net cash	*2*	**0**	(24)
Net cash flow used in investing activities		**(23,527)**	(12,712)
Cash flows from financing activities			
Proceeds from issue of share capital		**9,617**	0
Costs of share issue		**(43)**	(35)
Proceeds from other financial liabilities	*14*	**18,301**	4,522
Net cash flow from financing activities		**27,875**	4,487
Net currency translation effect		**(14)**	(9)
Net increase / (decrease) in cash and cash equivalents		**4,879**	(15,781)
Cash and cash equivalents at beginning of period		**9,889**	25,679
Cash and cash equivalents at end of period	*11*	**14,754**	9,889

Note[1] includes a $10.0m short term loan.

FLEX LNG

Statement of Cash Flows - FLEX LNG Ltd

Year ended 31 December
(USD, 000)

Company	Note	2011	2010
Cash flow from operating activities			
Loss before tax		**(119,735)**	(115,425)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	*4*	**(76)**	(214)
Finance expense	*4*	**7,817**	0
Impairment charge	*2*	**109,398**	114,269
Option and warrant costs		**4,444**	2,367
Share based payment expense		**49**	190
Working capital adjustments:			
Decrease / (Increase) in prepayments		**56**	(94)
(Increase) in trade and other receivables		**(209)**	(3)
Increase / (decrease) in trade and other payables[1]		**10,904**	(346)
		12,648	744
Interest received		**67**	300
Net cash flow from operating activities		**12,715**	1,044
Cash flows from investing activities			
Loans and investments in subsidiaries	*2*	**(16,923)**	(16,589)
Net cash flow used in investing activities		**(16,923)**	(16,589)
Cash flows from financing activities			
Proceeds from issue of share capital		**9,617**	0
Costs of share issue		**(43)**	(35)
Net cash flow from financing activities		**9,574**	(35)
Net increase / (decrease) in cash and cash equivalents		**5,366**	(15,580)
Cash and cash equivalents at beginning of period		**9,065**	24,645
Cash and cash equivalents at end of period	*11*	**14,431**	9,065

Note[1] includes a $10.0m short term loan.

Note 1: General information and significant accounting policies

1.1 Basis for preparation

FLEX LNG Ltd is a limited liability company, incorporated in the British Virgin Islands, and listed on the Oslo Axess exchange. The Group includes eight 100% owned active subsidiaries and as shown under note 2 below and the Company's interest in Minza Limited. The Group produces consolidated accounts incorporating these companies (including Minza up until October 2010) and its activities are focused on developing production, transportation and/or storage of liquefied natural gas and related activities. The company accounts for FLEX LNG Ltd relate to the parent company only and in the following notes it is specified when the detail relates to the consolidated group or the parent company only. Company accounts are produced to comply with the Oslo listing requirements. Reported values are rounded to the nearest thousand (USD 000) except when otherwise indicated.

The financial statements for the period ended 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by EU and valid as of 31.12.11. The financial statements were approved by the Board of Directors on 26.04.12 for issue on 27.04.12. The financial statements have been prepared on an historical cost basis, except for the valuation of warrants and options, which are accounted for at fair value and where certain assets which have been valued on the basis of recoverable amount. The financial statements have also been prepared on a going concern basis, additional information is included in notes 18 and 19.

The following standards were implemented in 2011;

IAS 24 Related Party Disclosures (Amendment); IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment); IFRIC 14 Prepayments of a minimum funding requirement (Amendment); IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments; IFRS 3 Business Combinations; IFRS 7 Financial Instruments – Disclosures; IAS 1 Presentation of Financial Statements; IAS 27 Consolidated and Separate Financial Statements; IAS 34 Interim Financial Reporting; and IFRIC 13 Customer Loyalty Programmes. The adoption of these amendments has had no material impact on the financial position or performance of the Group or Company.

At the end of 2011, some new standards, changes in existing standards and interpretations have been issued, but not yet become effective:

IFRS 9 Financial Instruments: Classification and Measurement; Amendments to IFRS 7 Financial Instruments – Disclosures; IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Involvement in Other Entities; IFRS 13 Fair Value Measurement; Amendments to IAS 12 Income Taxes; IAS 27 Revised: Separate Financial Statements; IAS 28 revised: Investment in Associates and Joint Ventures; IAS 1 Amendment: Presentation of Items of Other Comprehensive Income; and IAS 19 Amendment: Employee Benefits.

The Group and Company intends to adopt those standards when they become effective. Currently the Group and Company estimate that the implementation will have no impact, or are unable to determine the impact.

Note 1: General information and significant accounting policies (continued)

1.2 Functional currency and Presentation currency

The Group's presentation currency is USD. This is also the functional currency of all companies in the group, apart from FLEX LNG Management (Norway) AS which is NOK based. Subsidiaries with a different functional currency are translated using the period end rate for balance sheet items and an average rate for the income statement. Translation differences are charged against other comprehensive income. When a foreign subsidiary is partially or completely disposed of or sold, translation differences connected to the subsidiary are recognised in the income statement.

1.3 Basis of consolidation

The Group's consolidated financial statements comprise FLEX LNG and companies in which it has a controlling interest. A controlling interest would normally be attained if FLEX LNG owned, either directly or indirectly, more than 50% of the shares in the company and is capable of exercising control over the company, including call options over shares. Non-controlling interests are included in the Group's equity. Details on subsidiaries are provided in note 2. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, FLEX LNG Ltd, using consistent accounting principles.

The acquisition of an asset, group of assets or entity that does not constitute a business is not a business combination. In such cases the acquirer will identify and recognise the individual identifiable assets acquired and liabilities it assumes. The cost of the acquisition should be allocated to the individual identifiable assets and liabilities on the basis of their relative fair value at the date of purchase.

Intragroup transactions and balances, including internal profits and unrealised gains and losses, have been eliminated in full. Unrealised gains from transactions with associated companies are eliminated in the FLEX LNG's share of the associated companies. Correspondingly, unrealised losses are eliminated, but only if there are no indications of any impairment in the value of the asset that is sold internally. The consolidated financial statements have been prepared under the assumption of uniform accounting principles for equal transactions and other events under equal circumstances.

1.4 Use of estimates and judgements when preparing the annual financial statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). This means that management has used estimates and assumptions that have affected assets, liabilities, revenues, expenses, cash flows and information on potential liabilities. Future events may lead to these estimates being changed. Changes to accounting estimates are included in the financial statements for the period in which the change occurs. If the changes also apply to future periods, the impact is spread over the current and future periods. The estimates and underlying assumptions are based on past experience and other factors perceived to be relevant and probable when the judgements were made. The judgements affect the carrying amounts of assets and liabilities when no other sources have been applied in the valuation.

Estimates are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period, which the estimates are revised. The inputs to the fair value calculations are based on observable market data when available, but where this is not

Note 1: General information and significant accounting policies (continued)

1.4 Use of estimates and judgements when preparing the annual financial statements (continued)

achievable; a degree of judgement is required in establishing fair values. The judgements include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in these assumptions could impact the reported fair value.

Significant accounting judgements – new build contracts

Costs are capitalised as per note 1.8. In determining amounts that are capitalised, management makes assumptions regarding future cash generation from these assets. Costs are split between the different vessels based on management's view on benefits derived from the expenses incurred. The carrying value (payments less previous impairments) is calculated on a value in use basis and as a going concern. An impairment exists when the carrying value of the asset exceeds its recoverable amount (the higher of fair value less cost to sell and value in use). The assumptions behind the value in use calculation (all of which are subject to a significant degree of risk) are detailed in note 8, including the assumptions that have the most sensitivity in the calculation. These include the level of instalments made to Samsung that are available for redeployment, the results of the Samsung negotiations, the weights used in the average scenario calculation, contractual terms and future revenue, cost, and utilisation assumptions.

1.5 Currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items are retranslated at the period end exchange rate, non-monetary items that are measured at historical cost are translated at the rate in effect on the original transaction date, and non-monetary items that are measured at fair value are translated at the exchange rate in effect at the time when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such cash transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.6 Segments

The Group is operating only one segment with respect to products and services. Segment reporting is thus currently not relevant. Until a Group company concludes a final investment decision, or obtains a contract for the asset under construction all non-current assets are located in the country of domicile. The M-FLEX entities are incorporated in the Isle of Man.

1.7 Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted or substantively enacted by the balance sheet date.

The Group consists of two legal entities incorporated in the British Virgin Islands, five entities in the Isle of Man, one in Norway, one in Singapore. Minza Limited, which is incorporated in Jersey, was included in the Group up until the Company's option to acquire all shares in Minza expired in October 2010.

Note 1: General information and significant accounting policies (continued)

1.8 Non-current assets

Non-current assets are carried at cost less accumulated depreciation and impairment adjustments. When assets are sold or disposed of, the gross carrying amount and accumulated depreciation are derecognised, and any gain or loss on the sale or disposal is recognised in the income statement.

The depreciation period and method will be reviewed annually to ensure that the method and period used are in accordance with the financial realities of the fixed asset. This applies correspondingly to the scrap value.

The gross carrying amount of non-current assets is the purchase price, including duties/taxes and direct acquisition costs related to making the non-current asset ready for use. Subsequent costs, such as repair and maintenance costs, are normally recognised in income statement as incurred. Where increased future economic benefits as a result of repair/maintenance work can be proven, such costs will be recognised in the balance sheet as additions to non-current assets.

In accordance with IAS 16, the carrying value also includes capitalised expenses directly attributable to the asset in order to bring it to the location and condition for use in the intended manner. Such expenses include compensation for employees, travel costs, consultant fees, legal costs, engineering and design costs, plus other costs that are directly attributable to the assets. Capitalisation would cease once the asset is in the location and condition necessary for it to be able to operate in the manner consistent with its intended design.

Depreciation is calculated using the straight-line method over the following periods:

Vessels: 25 years
Periodic maintenance: variable to be determined once constructed

The payments on new building contracts are considered to be assets under construction and are accounted for in accordance with IAS 16. The credit terms for the payment are considered to be normal for the industry and therefore the payment is booked at nominal value.

On delivery the total expenditure of the vessel would be decomposed to groups of components that have different expected useful lives. The different groups of components would be depreciated over their expected useful lives.

Intangible assets are measured on initial recognition at cost. Following recognition they are carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation period is reviewed on an annual basis, with any amortisation or impairment charge recognised in the income statement.

Note 1: General information and significant accounting policies (continued)

1.8 Non-current assets (continued)

Depreciation on plant and equipment is calculated using the straight-line method to depreciate assets over their useful life. The following periods have been used:

IT Equipment: 2 years
Furniture and Fittings: 5 years

Shares in the subsidiaries and loans provided to subsidiaries are evaluated at the lower of cost and fair value. When the value of estimated future cash flows is lower than the carrying value in the subsidiaries, the Company recognises impairment charges on investments in subsidiaries and intercompany loan receivables. If and when estimated recoverable amounts increase, impairments charges are reversed. There is currently no repayment schedule on the intercompany loans and no interest charged on outstanding balances.

1.9 Impairment of assets

Financial instruments

Financial instruments are reviewed at each balance sheet date in order to discover any decrease in value.

Financial assets which are valued at amortised cost are written down when it is probable that the Company will not recover all the amounts relating to contractual issues for loans, receivables or hold-to-maturity investments. The amount of the impairment loss is recognised in the income statement as a finance cost. Any reversal of previous impairment losses is recognised when a reduction in the need to write down the asset can be related to an event after the impairment loss has been recognised. Such a reversal is presented as income. However, an increase in the carrying amount is only recognised to the extent that it does not exceed what the amortised cost would have been if the impairment loss had not been recognised.

Other and non-current assets

An assessment of impairment losses on other assets is made when there is an indication of a fall in value. If an asset's carrying amount is higher than the asset's recoverable amount, an impairment loss will be recognised in the income statement. The recoverable amount is determined separately for all assets but, if this is impossible, it is determined together with the entity to which the assets belong. An impairment loss occurs when the carrying amount exceeds the recoverable amount, which is the higher of value in use or the net sales price. The value in use is calculated using the present value of estimated future cash flows. The calculation is performed at the vessel level for assets under construction. During the year an impairment review was completed on the vessel assets, (contractual payments made to Samsung to be used for LNGP or Alternative Deployment construction, after deduction of agreed restructure costs) to determine their recoverable amount, additional details note 8.

Trade receivables

Trade receivables would be carried at amortised cost. The interest element is disregarded if it is insignificant. Should there be objective evidence of a fall in value, the difference between the carrying amount and the present value of future cash flows is recognised as a loss, discounted by the receivable amount's effective interest rate.

Note 1: General information and significant accounting policies (continued)

1.10 Cash and cash equivalents
Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments that can be converted into cash within three months and to a known amount, and which contain insignificant risk elements.

The cash and cash equivalent amount in the cash flow statement include overdraft facilities. The cash flow statement has been prepared in accordance with the indirect method.

1.11 Provisions, contingent liabilities and assets
Provisions are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Provisions are recognised when, and only when, the company has an existing liability (legal or assumed) as a result of events that have taken place, it can be demonstrated as probable (more likely than not) that a financial settlement will be made as a result of the liability, and the amount can be measured reliably. Provisions are reviewed at each balance sheet date and the level reflects the best estimate of the obligation. When the time factor is insignificant, the size of the provisions will be equal to the size of the expense required for redemption from the obligation. When the time factor is significant the provisions will be equal to the net present value of future payments to cover the obligation. Increases in provisions due to the time factor will be presented as interest expenses.

Contingent liabilities are defined as;

i. Possible obligations resulting from past events whose existence depend on future events.
ii. Obligations that are not recognised because it is not probable that they will lead to an outflow of resources.
iii. Obligations that cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the annual financial statements apart from contingent liabilities which are acquired through the acquisition of an entity. Significant contingent liabilities are stated, with the exception of contingent liabilities where the probability of the liability occurring is remote.

A contingent asset is not recognised in the annual financial statements, but is stated if there is a certain level of probability that a benefit will accrue to the Group.

New information on the Group’s positions at the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not affect the company’s position at the balance sheet date, but which will affect the Group’s position in the future are stated if significant.

1.12 Warrants and share based payments – equity settled transactions
The fair value of the warrants is estimated at the grant date and recognised as an expense over the vesting period. The Quanto-Barrier Option pricing model has been used to calculate the fair value of the warrants.

Fair value of warrants granted for consulting services fees is measured at the fair value of the services received.

Note 1: General information and significant accounting policies (continued)

1.12 Warrants and share based payments – equity settled transactions (continued)

The fair value of the share options has been calculated using the Black-Scholes-Merton option pricing model.

The cost of the options and warrants is recognised over the period in which the performance is fulfilled, ending at the date on which the relevant employees become entitled to the award. This includes an assessment of the implicit future service requirement of the award. The expense at each reporting date is based on the Group's best estimate of the number of equity instruments that will vest. The income statement reflects the movement in the cumulative expense recognised as at the beginning and the end of the period.

Directors of the Company received part of their remuneration in the form of share-based payment transactions. The value of the services is recognised at the fair value of the shares received.

1.13 Option accounting

Where it is considered that a call option does not give access to all the benefits associated with the ownership interest, then the implementation guidance in IAS 27 (as amended in 2008) and IAS 27 (2007) states that in such situations the 'instruments containing the potential voting rights are accounted for in accordance with IAS 39'. This means that the call option over the shares in a subsidiary has initially been recognised as part of the intangible asset value at its fair value with any subsequent changes in its fair value being reflected in the income statement.

1.14 Borrowing costs

Where borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset they are capitalised as part of the qualifying asset.

Note 2: Subsidiaries

The following subsidiaries are included in the consolidated financial statements:

Company	Country of registration	Main operations	Ownership share	Voting share
M-FLEX 1 Limited	Isle of Man	Shipping	100%	100%
M-FLEX 2 Limited	Isle of Man	Shipping	100%	100%
M-FLEX 3 Limited	Isle of Man	Shipping	100%	100%
M-FLEX 4 Limited	Isle of Man	Shipping	100%	100%
FLEX LNG Management Limited	Isle of Man	Management services	100%	100%
FLEX LNG Management (Norway) AS	Norway	Management services	100%	100%
FLEX LNG Management (Singapore) PTE LTD	Singapore	Management services	100%	100%
FLEX Petroleum Limited	British Virgin Islands	Holding company	100%	100%
Minza Limited (until 31/10/10)	Jersey	Gas Development	5%	5%

Note 2: Subsidiaries (continued)

FLEX LNG Ltd – Loans and investments in subsidiaries

Company (USD 000)	2011	2010
M-FLEX 1 Limited	**262,498**	246,373
M-FLEX 2 Limited	**100,407**	99,689
M-FLEX 3 Limited	**99,644**	99,621
M-FLEX 4 Limited	**99,838**	99,818
FLEX Petroleum Limited	**3,742**	3,705
Impairment provision	**(223,667)**	(114,269)
	342,462	434,937

Loans to 100% subsidiaries are unsecured, interest free and repayable on 30 days notice. It is currently not the intention of FLEX LNG to call in these loans. The loans have been used to cover stage and other payments to Samsung, capitalised costs, running costs and an allocated share of the management recharge.

Following the impairment write down on the vessel assets, note 8, and the investments in Minza, note 2, the Company has reviewed the carrying value of the loans to the four M-FLEX entities and FLEX Petroleum Limited. The valuation has been based on the recoverable amount for the vessel assets $342.4m ($431.2m), the investments $nil ($3.7m) and that the recoverable amount reflects that the M-FLEX Samsung liabilities are offset against paid in instalments, although at 31 December these liabilities remain in the Group balance sheet. The loan amounts in excess of this have been recognised as an impairment loss in the Company income statement $109.4m ($114.3m). This adjustment has no impact at a consolidated level.

Disposal of Assets

In June 2009 the Company and its 100% owned subsidiary FLEX Petroleum Limited entered into an agreement with Minza Limited ("Minza") and its shareholder covering the following: the purchase of a minority share (5%); a call option payment allowing the Group to purchase the remaining shares in Minza at an agreed price within a 12 month option period, expiring in 2010. The option period was extended in 2010 to 31 October, when it expired.

The investment was initially accounted for as an acquisition of assets. The individual assets and liabilities acquired were separately recognised, with the cost of the acquisition allocated to the individual assets and liabilities, based on the fair value at the date of purchase. No goodwill was recognised on the purchase and the majority share of the purchase was recognised as a non-controlling interest. Following the option lapse, the resulting change was accounted for as a disposal of the individual assets and liabilities and a gain of $22k was recognised on the disposal in 2010.

At 31 December 2011 the Group remains with a holding of 5% in the share capital of Minza. The cost of this investment was $1,700k, which has been written down to $nil and an impairment loss of $875k (2010: $825k) recognised. 2010 also included a write off on capitalised costs of $113k. The Group also loaned Minza $1,532k. The terms of the loan provided that if the loan was not repaid by Minza by 31 October 2011 the loan would convert into 13.75% of the shares in Minza. The loan bore interest at LIBOR plus 1%. Currently Minza has not accepted the conversion of the loan into additional share capital; the Company does not accept this position and is working to resolve the situation. In the meantime a write down of $1,532k has been made against the loan. The total write down recognised in the year in relation to Minza was $2,407k (2010: $938k). The following amounts, in relation to Minza were included in the 2010 consolidated income statement.

Note 2: Subsidiaries (continued)

Minza Limited (disposed in 2010)	**2010**
Revenue – eliminated in FLEX consolidation	202
Net revenue	202
Costs	404
Loss before tax	(202)
Non-controlling interest	(195)

Assets and liabilities disposed	
Plant and equipment	4
Intangible assets	1,759
Other current assets	22
Cash and cash equivalents	24
Current liabilities	(38)
Shareholder loans ($1,532k relates to FLEX)	(2,353)
Net assets	(582)
FLEX investment	(1,700)
Non controlling interest	2,260
Total net liabilities disposed	(22)

P&L on disposal	
Proceeds	0
Net liabilities disposed	(22)
Profit on disposal	22

Note 3: Administrative expenses

As detailed in note 1.8 capitalised costs include expenses covering compensation for employees, travel costs, consultant fees, legal costs, engineering and design costs, plus other costs that are directly attributable to the assets. The amounts in tables 3.1 to 3.3 are prior to this capitalisation.

3.1 Included in administration expenses USD,000	**Group 2011**	Group 2010	**Company 2011**	Company 2010
Depreciation	**146**	211	**0**	0
P&L on disposal of assets	**1**	(3)	**0**	0
P&L on disposal of business	**0**	22	**0**	0
Net foreign exchange differences	**(172)**	(210)	**(65)**	(27)
Calculated fair value of warrants	**1,847**	1,536	**1,847**	1,536
Calculated fair value of options	**2,597**	831	**2,597**	831

Note 3: Administrative expenses (continued)

3.2 Auditors

Expensed fee to the auditors is divided into the following services (exclusive of VAT):

USD,000	**Group 2011**	Group 2010	**Company 2011**	Company 2010
Audit	**102**	96	**68**	62
Tax assistance	**47**	73	**0**	1
Total Auditor's fees	**149**	169	**68**	63

3.3 Remuneration

During 2011 FLEX LNG had between seven and nine Directors, but no employees. All employees are engaged by the three management companies.

Staff costs USD,000	**Group 2011**	Group 2010	**Company 2011**	Company 2010
Wages and salaries	**4,030**	4,314	**0**	0
Social security costs	**429**	596	**11**	42
Pension costs	**163**	234	**0**	0
Total employee benefit expenses	**4,622**	5,144	**11**	42

Share based payments are covered in note 13. Employees are offered a fixed base salary. In 2011 and 2010 the employees have been offered a performance related salary element. This is linked to key commercial contract goals and varies depending on staff seniority. The company contributes to a defined contribution pension scheme for staff. UK and Singapore based staff are offered additional health insurance. The number of man-labour years in 2011 was 35 (2010 – 33). The Company has incurred social security costs in relation to the payment of Directors fees in the Isle of Man.

Directors fees FLEX LNG, USD,000	**Company 2011**	Company 2010
<u>Current Directors</u>		
David McManus	**70**	0
Philip E. Fjeld	**57**	50
Scott Pearl	**57**	50
Ian Beveridge	**57**	50
Aoki Hiromichi	**57**	50
Christopher Pittinger	**25**	0
Eiji Wakiwaka	**25**	0
<u>Ex. Directors</u>		
James A. MacHardy	**39**	80
James D.A. Van Hoften	**32**	50
Anders Westin	**32**	50
Katherine Eisbrenner	**19**	0
Keith Meyer[1]	**36**	0
Total Directors' fees	**506**	380

Note[1]: This excludes the 150,000 options received under a consultancy agreement prior to becoming a director.

50% to 100% of the remuneration listed above is paid via the issue of shares by the Company.

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Note 3: Administrative expenses (continued)

3.3 Remuneration (continued)
Where directors have taken on directorships of subsidiary companies, they have received an annual fee of $2k per company on a pro rata basis. The cost per person for services provided by Mr. Fjeld, Mr. Hoften, Mr. Beveridge, Mr. Pittinger and Mr. Hiromichi was $40k in the year (2010: $40k). All earnings and shares for Mr. Beveridge are assigned to Bernhard Schulte Investment Holding, Mr. Wakiwaka to Masters K.K, and for Mr. Aoki to Kawasaki Kisen Kaisha Ltd.

Executive Management USD,000	Salary and bonus	Sundry benefits	Pension	Option costs	**Group Total**
Philip Fjeld	250	6	12	124	**392**
Jostein Ueland	250	10	13	123	**396**
Trym Tveitnes	250	2	13	124	**389**
Gary Baron	275	3	12	51	**341**
2011	**1,025**	**21**	**50**	**422**	**1,518**
2010	1,000	96	50	107	1,253

The Executive Management receive remuneration via the management companies FLEX LNG Management Limited, FLEX LNG Management Norway AS and FLEX LNG Management (Singapore) Pte Ltd. Mr. Fjeld, and Ueland do not have contracts of employment and their termination rights are determined by statute. Mr. Baron and Tveitnes have contracts of employment that give a three month notice period. Options and warrants have been granted as follows Mr. Fjeld, Ueland and Tveitnes 46,800 options each held personally (issued 22/07/08) and warrant and options via Hansa LNG Limited as detailed note 13 and 15. Mr. Baron holds 180,000 options, issued over the last four years.

Note 4: Finance costs and revenue

Finance cost	**Group 2011**	Group 2010	**Company 2011**	Company 2010
Option cost for shares issued [1]	**7,817**	0	**7,817**	0
Write-off of financial assets (note 2)	**2,407**	938	**0**	0
Total financial cost	**10,224**	938	**7,817**	0

Note[1]: From the valuation of the share purchase option provided to IOC and PACLNG. Under the option the two parties were able to subscribe for 11,315,080 shares at an average price of NOK 4.59, against a share price of NOK 8.22 at the time of grant.

Finance revenue	**Group 2011**	Group 2010	**Company 2011**	Company 2010
Interest income	**77**	222	**76**	214
Total financial revenue	**77**	222	**76**	214

Note 5: Earnings per share

Basic earnings per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

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Note 5: Earnings per share (continued)

Diluted earnings per share amounts are calculated by dividing the net loss by the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential shares.

The following reflects the loss and share data used in the earnings per share calculation.

Earnings per share:	**2011**	2010
Loss attributable to shareholders – Group $'000	**(135,959)**	(108,659)
Loss attributable to shareholders – Company $'000	**(119,735)**	(115,425)
Weighted average number of ordinary shares	**120,240,027**	112,947,425
Effect of dilution:		
Share options [1]	**0**	0
Warrants [2]	**0**	0
Weighted average number of shares, adjusted for dilution	**120,240,027**	112,947,425

[1] the options are out of the money
[2] the warrants are out of the money

Note 6: Management fees

There are no employees in FLEX LNG Ltd. A contract for management services is entered with FLEX LNG Management Limited ("FLML") and its subsidiaries. According to this agreement, FLML will render services to the Group relating to general administration and contract management. FLML is entitled to a compensation covering all its expenses plus a mark-up. The management agreement was amended in 2010 to include the new Singapore management company. The total compensation for 2011 was $10,970k (2010: $10,660k).

Note 7: Income tax

The Group consists of two legal entities incorporated in the British Virgin Islands (BVI), and five entities in the Isle of Man, one entity in Norway, one entity in Singapore and the Company's interest in Minza Limited, until 31/10/10. Income or capital gains are not subject to taxation in the BVI, or the Isle of Man. The profits in the Norwegian and Singapore entities and the profit attributable to the UK are taxable.

(USD,000)	**Group 2011**	Group 2010
Current income tax charge	**84**	132
Adjustments in respect of current income tax of previous years	**4**	41
Income tax expense reported in the income statement	**88**	173

Note 7: Income tax (continued)

(USD,000)	**Company 2011**	Company 2010
Current income tax charge	**0**	0
Adjustments in respect of current income tax of previous years	**0**	0
Income tax expense reported in the income statement	**0**	0

A reconciliation between the tax expense and the product of the accounting profit multiplied by the British Virgin Islands (BVI) domestic tax rate for the year ended 31 December 2011 and 2010 is as follows:

(USD,000)	**Group 2011**	Group 2010
Accounting loss before income tax	**(135,871)**	(108,681)
Income tax at 0% (2010:0%)	**0**	0
Effect of higher UK, Singapore and Norway tax rates	**88**	173
Effective income tax rate of 0.1% (2010: 0.2%)	**88**	173

(USD,000)	**Company 2011**	Company 2010
Accounting loss before income tax	**(119,735)**	(115,425)
Income tax at 0% (2010:0%)	**0**	0
Effective income tax rate of 0% (2010: 0%)	**0**	0

Note 8: New Build Contracts

(USD,000) – **Group, New build contracts**	**2011**	2010
At 1 January – Payments on account, Hull	**375,997**	458,730
Additions	**0**	0
Impairment	**(49,997)**	(82,733)
At 31 December	**326,000**	375,997
At 1 January – Topside	**37,363**	39,339
Additions	**18,818**	8,183
Impairment	**(44,466)**	(10,159)
At 31 December	**11,715**	37,363
At 1 January – Capitalised cost	**17,872**	18,322
Additions	**4,653**	4,409
Impairment	**(17,828)**	(4,859)
At 31 December	**4,697**	17,872
At 1 January – Total	**431,232**	516,391
Additions	**23,471**	12,592
Impairment	**(112,291)**	(97,751)
At 31 December	**342,412**	431,232

Finance costs of $661k are included in 2011 capitalised costs (2010: $1,156k).

Note 8: New Build Contracts (continued)

The values reported in the balance sheet mainly refer to contractual payments made to the yard, Samsung, in South Korea. Total obligations for the Group with respect to payment for the vessels are detailed in note 16.3. Samsung carries the title to and the risk for the vessels hull until delivery, and in 2011 carried irrevocable refund guarantees for the prepayments made by the Group in the case of non-delivery of vessels. In 2012 these guarantees have been closed and the Company currently expects in the case of agreement for Alternative Deployment, that there would be reinstatement of refund guarantees. The title for Topside equipment passes gradually during construction and on payment. In light of the uncertainty surrounding the timing of FID for the Gulf LNG Project and the lapse of the 2011 Preliminary Agreement between FLEX LNG and Samsung, the parties have expanded the scope of their discussions to include negotiations for the Alternative Deployment of the capital invested by FLEX LNG. The parties have included in such discussions the possibility of deploying the capital already paid by FLEX LNG to permit construction of LNG carrier and/or regassification vessels. Currently the negotiations are ongoing as to the form of the restructure with Samsung. The 2011 carrying value assessment has therefore been based on a weighted average scenario calculation for the possible outcomes of the negotiations, using a value in use methodology, assuming Alternative Deployment as the highly likely outcome. The carrying value of the contractual payments and the capitalised costs are thus dependent on the IOC/PACLNG contractual arrangements remaining at economically viable terms, the financial terms of the Alternative Deployment, including the economic terms to which the new vessels would be utilised, finance being secured at reasonable terms, and the restructuring of the contracts with Samsung on reasonable terms. In the case of a negative outcome to these negotiations the carrying value would most likely require additional material impairment. In the year the Company has recognised impairment write downs of $112.3m (2010: $97.8m) on the capitalised costs for the four LNG Producers, based on a current estimate of possible outcomes of the restructuring negotiations that have been commenced, but not yet concluded (reference also note 17.2). In the 2010 statutory accounts the LNG Producers carrying value was supported by a value in use calculation based on the expected economic terms for the IOC/PACLNG contract.

In assessing the carrying value of the vessel assets, in the weighted average scenario calculation, the Group has reviewed;

<u>Hull instalments</u>

A) The value in use for the Alternative Deployment, after the instalment transfers from FLNG vessels 1-4. This has been calculated based on assumptions as to a fully commissioned cost, expected revenue over the 30-year period and expected operating costs. The WACC for the Company, for this assessment only, is calculated based on factors that impact the company’s ability to raise capital to finance its assets. The estimated WACC, for this assessment only, takes into account assumptions as to the tax rate, cost of debt, cost of equity, the beta for the company, interest rates and the debt to equity ratio; ultimately a post tax WACC of 8.1% has been used in the calculation. This calculation is subject to a number of assumptions as to the future, which may or may not prove to be accurate.

B) The value in use for LNGP vessel 1, after the instalment transfers from vessels 2-4. This has been calculated based on an assumption as to a fully commissioned cost, over a 25 year period (expected period of the project), and based on assumptions as to expected production capacity/availability (an estimated 2.25 trillion cubic feet of gas over a 25-year period), revenue shares (14.5% of the revenue from the sale of LNG from the FLNG vessel for an initial 15-year period, for the next 5 years 12.5% of

Note 8: New Build Contracts (continued)

the revenue and 10% of the revenue for the last 5-year period), agreed deductions and premiums for shared costs with IOC/PACLNG, and expected LNG sales prices for the region. The weighted cost of capital (WACC) for the Company, for this assessment only, is calculated based on factors that impact the company's ability to raise capital to finance its assets. The estimated WACC, for this assessment only, takes into account assumptions as to the tax rate, cost of debt, cost of equity, the beta for the company, interest rates and the debt to equity ratio; ultimately a post tax WACC of 9.0% has been used in the calculation. This calculation is subject to a number of assumptions as to the future, which may or may not prove to be accurate. This calculation is subject to a number of assumptions as to the future, which may or may not prove to be accurate.

C) The Company's best estimate of the recoverable amount for the other possible resolution of the Samsung agreements. This calculation is subject to a number of assumptions as to the future, which may or may not prove to be accurate.

Topside and Capitalised Costs

The previous capitalised costs represented the FEED work performed on the vessel designs for the West Africa and PNG projects for near shore and offshore operation. The Company have reviewed this work to determine the elements that are generic to other projects and then estimated the ability to reuse and commercialise these generic LNGP designs for future projects. This calculation is subject to a number of assumptions as to the future, which may or may not prove to be accurate.

The resultant recoverable value for the asset carrying value after the impairment write down of $112.3m (2010: $97.8m) is $342.4m (2010: $431.2m). Given the asset value, that the materialisation of any projects would not be until some point in the future, and the duration of the projects, changes in assumptions (in particular; charter revenue, capex, the level of instalments available for redeployment, the mix probability for the possible outcomes, oil price, oil price slope, the ability to reuse and commercialise the LNGP designs, required interest and equity returns) can have a significant impact on the calculated carrying value. These forecasts are uncertain as they require assumptions about future market conditions and events. Unanticipated changes in these assumptions, including potentially significant ones, are possible and could require an additional provision and/or a mix change for impairment in a future period. Given the nature of these evaluations the management cannot reasonably quantify the impact of changes in these assumptions.

Note 9: Equipment

(USD,000) - Group

Cost	2011	2010
Cost 1 January	**766**	755
Additions	**57**	103
Disposals	**(22)**	(87)
Disposal of subsidiary	**0**	(5)
31 December	**801**	766

Note 9: Equipment (continued)

(USD,000) - Group

Depreciation	**2011**	2010
Cost 1 January	**499**	370
Depreciation charge for the year	**146**	211
Exchange movement	**0**	1
Disposal of subsidiary	**0**	(1)
Disposals	**(22)**	(82)
31 December	**623**	499

Net book value	**2011**	2010
At 31 December	**178**	267

Note 10: Other current assets

(USD 000)	**Group 2011**	Group 2010	**Company 2011**	Company 2010
Debtors	**490**	179	**282**	64
Prepayments	**257**	381	**38**	94
Loans and receivables	**0**	1,532	**0**	0
Other receivables	**302**	276	**0**	0
Total other current assets	**1,049**	2,368	**320**	158

Note 11: Cash and cash equivalents

(USD 000)	**Group 2011**	Group 2010	**Company 2011**	Company 2010
Cash at the bank and in hand	**14,754**	9,889	**14,431**	9,065
Cash and cash equivalents in the balance sheet and cash flow statement	**14,754**	9,889	**14,431**	9,065
Overdraft facility	**0**	0	**0**	0

$1,000k is held in deposits of greater than 3 months and is shown as cash and cash equivalents, this amount can be immediately called upon subject to interest penalties.

Note 12: Share capital, shareholder information and dividend

Group & Company	**2011**	2010
Ordinary shares, nominal amount USD 0.01	**124,778,313**	113,043,243
Total number of shares	**124,778,313**	113,043,243

Note 12: Share capital, shareholder information and dividend (continued)

Group & Company	Shares ('000)	Share Capital (USD'000)	Share Premium (USD'000)
Ordinary shares - Issued and fully paid:			
At 1 January 2011	**113,043**	**1,130**	**552,490**
Expenses related to share issue	**0**	**0**	**(43)**
New shares issued	**11,315**	**113**	**9,230**
Issue in lieu of remuneration	**420**	**5**	**269**
31 December 2011	**124,778**	**1,248**	**561,946**

Group & Company	Shares ('000)	Share Capital (USD'000)	Share Premium (USD'000)
Ordinary shares - Issued and fully paid:			
At 1 January 2010	112,746	1,127	552,243
Expenses related to 2009 share issue	0	0	(35)
Issued in lieu of remuneration	297	3	282
31 December 2010	113,043	1,130	552,490

Nominal value per share is USD 0.01. All issued shares have equal voting rights and are equally entitled to dividend. During the year shares were allotted to directors of FLEX LNG to cover 50% to 100% of their remuneration for the year. These Directors' shares for the remuneration, post the 2011 ASM to 31/12/11 had not been issued at 31/12/11 and are recorded in the option, warrant and share reserves, $144k (2010: $95k). Computation of earnings per share and diluted earnings per share is shown in note 5.

Other reserves: FLEX LNG has in the year recognised under other equity $4,494k (2010: $2,272k) in relation to the cost of warrants, options and shares issued.

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Note 12: Share capital, shareholder information and dividend (continued)

Main group shareholders at 31.12.11 are: Shareholder:	Number of shares:	Ownership interest:
KAWASAKI KISEN KAISHA LTD	17,000,837	13.6%
JP MORGAN CLEARING CORP. [1]	16,226,543	13.0%
STATE STREET BANK AND TRUST CO.[1]	13,486,167	10.8%
INTEROIL FINANCE INC.	8,938,913	7.2%
SIX SIS AG[1]	6,815,874	5.5%
B SCHULTE INVESTMENT HOLDING	6,009,440	4.8%
JP MORGAN CHASE BANK[1]	5,617,732	4.5%
JP MORGAN SECURITIES LIMITED	5,000,000	4.0%
INVESCO PERP EUR SMALL COMP FD	4,516,727	3.6%
GOLDMAN SACHS & CO - EQUITY[1]	3,989,247	3.2%
KISTEFOS INVESTMENT SD	3,705,324	3.0%
BANK OF NEW YORK MELLON SA/NV[1]	2,931,086	2.4%
GOLDMAN SACHS INT. - EQUITY -[1]	1,992,380	1.6%
BANK OF NEW YORK MELLON (LUX) S.A.[1]	1,975,093	1.6%
COLLINS STEWART (CI) LIMITED	1,907,399	1.5%
CREDIT SUISSE SECURITIES (USA) LLC [1]	1,485,000	1.2%
P-INVEST AS	1,300,000	1.0%
DEUTSCHE BANK AG LONDON [1]	1,250,000	1.0%
JP MORGAN BANK LUXEMBOURG [1]	1,138,000	0.9%
BOASSON	1,122,846	0.9%
OTHER	18,369,705	14.7%
Total	124,778,313	100.0%

Note[1] - Nominee account.

Note 13: Share based payments

Share-Based Payment - Group & Company
During the period ended 31 December 2011, FLEX LNG had share-based payment arrangements, which are described below.

Plan	**Warrant Plan**	**Option Plan**
Type of arrangement	Equity Based	Equity Based
Date of Grants	19.03.2007 and 07.09.2007	22/07/2008, 27/10/2008, 11/12/2008, 01/01/2009, 01/01/2010, 22/03/2010, 21/06/2010, 01/07/2010, 01/08/2010, 15/07/2011
Warrants and options granted (less lapses) as of 31.12.2011	6,631,455	3,949,500
Remaining contractual life	Average 5 years	Average 5 years
Vesting conditions	25% vest on at shore completion of the first vessel from Samsung, 25% vest on at shore completion of the second vessel from Samsung and 50% vest 31.12.2014, subject to the first two criteria being met.	2008/9 Allocations: 25% vest on 15/03/2012, 25% vest on 15/03/2013, 25% vest on at shore completion of the first vessel from Samsung, and 25% vest on at shore completion of the second vessel from Samsung. 2010 Allocations: One third vest on the FID for the first vessel, one third vest at 30/06/2012, and one third vest at the first LNG vessel's first commercial cargo of LNG. 2011 Allocations: 50% vest on 20/12/2012 and 50% vest no earlier than 24 months from the FID for the first vessel.
Expiry date	31/12/2016	31/12/2016

The fair value of the options is calculated using the Black-Scholes-Merton option pricing model. During the year the expected exercise date was updated for the lengthening of the anticipated vesting periods and the vesting dates on the 2008/9 allocations has been amended to be in line with 2011 AGM approval.

The warrants contain market conditions in that the underlying has to trade above a barrier (hurdle) following vesting date in order to be exercised.

The exercise rights as to certain options and warrants are based on vesting criteria linked to LNGP commercial targets, and the 2011 costs are based on assumptions that these commercial targets are achievable. Were these targets not to be achievable, it would have an impact on the income statement in respect of the options and warrants. If the Alternative Deployment route is followed with Samsung, it is possible that the options and warrants could undergo certain changes.

Note 13: Share based payments (continued)

The inputs to the model for options granted to employees in 2011, from the 2008 scheme, are listed below:

Plan – 2008 scheme	**Option**
No of options	200,000
Expected life	2.75 years
Weighted average share price at grant date (NOK)	6.09
Weighted average exercise price (NOK)	9.25
Annual NOK risk-free rate	1.93%
Volatility of underlying share	98.72%
Expected dividends	-
Fair Value of warrants	NOK 3.17

Expected volatility has been based on historical volatilities for FLEX LNG shares and from similar listed shares.

The total expensed amount in 2011 relating from the share-based payment plan was $4,265k (2010: $2,367k). The split of the 2011 expense between the warrants and options was $1,847k and $2,418k. The total expensed amount relating to remaining options and warrants at 31/12/2011 was $13,655k (2009: $9,390k).

Further details of the plan are as follows:

	01.01.11 - 31.12.11		01.01.10 - 31.12.10	
	Options & Warrants	**Weighted Average Exercise Price**	Warrants	Weighted Average Exercise Price
Warrants / options outstanding at the beginning of year	**10,716,455**	**NOK 21.57**	9,966,455	NOK 21.90
Options granted	**200,000**	**NOK 9.25**	909,000	NOK 17.31
Exercised	**0**	**0**	0	0
Terminated	**0**	**0**	0	0
Forfeited	**(335,500)**	**NOK 27.93**	(159,000)	NOK 25.67
Expired	**0**	**0**	0	0
Options & warrants outstanding at the end of year	**10,580,955**	**NOK 19.68**	10,716,455	NOK 21.57
Vested Option / Warrants	**0**	**0**	0	0
Weighted average fair value of options granted during the year	**200,000**	**NOK 3.17**	909,000	NOK 2.16

During the year, for options granted in 2008 and 2009, the exercise price was amended from NOK 37 to NOK 20, following the 2011 ASM approval, this impacted 1,105,000 options.

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Note 13: Share based payments (continued)

Outstanding and vested Warrants as of 31 December 2011 are given in the table below.

	Outstanding			Vested	
Exercise price (NOK)	Outstanding Options & Warrants per 31.12.2011	Weighted average remaining contractual Life	Weighted Average Exercise Price NOK	Vested Options & Warrants 31.12.2011	Weighted Average Exercise Price
0.00 – 7.00	422,250	5.01	6.50	0	0
7.00 – 15.00	6,731,455	5.01	14.94	0	0
15.00 – 30.00	1,427,250	5.01	21.64	0	0
30.00 – 40.00	2,000,000	5.01	37.00	0	0
Total	**10,580,955**	**5.01**	**19.68**	**0**	**0**

Warrant holders are as follows;

Holder	**Date**	**Warrants**
Hansa LNG Limited	27th March 2007	2,000,000
Hansa LNG Limited	7th September 2007	4,631,455
Total		**6,631,455**

In 2008 FLEX LNG shareholders authorised the issue of up to 2,600,000 options to the employee's of the management companies. At 31/12/2011 1,949,500 of the 2,600,000 options remained in issue. On 25 August 2011 the exercise price was amended for 1,105,000 options from NOK 37 to NOK 20.

Options were granted as follows;

Holder	**Date**	**Options**
Employees of the management companies	2008 grant	1,880,000
Hansa LNG Limited	2008 grant	2,000,000
Lapsed - 2009, employees		(605,000)
Employee of the management companies	2008 grant	60,000
Lapsed - 2010, employees		(159,000)
Employees of the management companies	2010 grant	909,000
Total - 2010		4,085,000
Employee of the management companies	2011 grant	200,000
Lapsed - 2011, employees		(335,500)
Total - 2011		**3,949,500**

The employee options, subject to certain customary exceptions, require staff to be employed by the company from the date of grant to the time of vesting. The objective of the options is to align the effort of employees with the future success of the Group.

The options and warrants held by Hansa LNG Limited do not have an employment requirement. The awards to Hansa LNG Limited were to compensate Hansa LNG Limited for, inter alia, its efforts in; establishing the Company; developing the Company's business concept and certain commercial opportunities; funding the Company until the first private placement; achieving successful completions of the two private placements in 2007; and for reducing Hansa LNG Limited's ownership share in the Company through the two private placements in 2007.

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Note 13: Share based payments (continued)

At the 2011 ASM the shareholders authorised the issuance of up to 2,500,000 options to employees, consultants and contractors of the Company and Group. Mr. Keith Meyer held a consultancy agreement with the company for services provided prior to becoming a director. Under this agreement he was entitled to 150,000 options at a strike price of USD0.01 per share. During the year these options were exercised and shares issued. This resulted in a P&L charge of $179k for the fair value of the options. The inputs used in the model for this grant was as follows;

Plan – 2011 scheme	Option
No of options	150,000
Expected life	0.15 years
Weighted average share price at grant date (NOK)	6.50
Weighted average exercise price (NOK)	0.05
Annual NOK risk-free rate	2.71%
Volatility of underlying share	57.82%
Expected dividends	-
Fair Value of warrants	NOK 6.45

The remaining 2,350,000 options remained unissued at the yearend.

During the period ended 31 December 2011 FLEX LNG agreed to issue the directors with shares covering 50% to 100% of their remuneration. The value of the shares is based on the fair value of the services received of $320k (2010 - $190k). At 31 December 2011 280,761 shares (2010: 118,879 shares) with a value of $144k had not yet been issued to the directors.

The split of shares issued to director, by way of remuneration, was as follows;

Director	2011	2010
Current directors		
D McManus	**99,466**	0
I Beveridge[1]	**64,934**	33,054
P Fjeld	**40,669**	33,054
S Pearl	**40,669**	33,054
H Aoki[1]	**64,803**	33,054
E Wakiwaka[1]	**26,779**	0
C Pittinger	**26,779**	0
Ex directors		
K Eisbrenner	**8,158**	0
K Meyer[2]	**15,378**	0
J MacHardy	**16,457**	52,886
J van Hoften	**13,890**	33,054
A Westin	**13,890**	33,054
Total	**431,872**	251,210

Note[1]: These shares are issued to the company they represent rather than the individual. In addition at 31/12/11 280,761 of these shares has not been issued.
Note[2]: This excludes the 150,000 options received under a consultancy agreement prior to becoming a director.

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Note 14: Other financial liabilities

On 11 June 2009 the Group entered into an agreement (the "Principle Agreement") with Samsung covering the revised payment profile during the slow down phase. Under the agreement, in addition to the agreed instalments, the Group had the opportunity to defer up to $4m of EPCIC expenditure in the period from 1 May 2009 to 31 August 2009. Under the Principle Agreement the amount deferred would be repayable with the first milestone billing after the slow down phase and bear interest at 7% per annum. At 31 December 2011 $4,138k (2010: $3,929k) had been deferred, including interest. In addition certain vendor obligations on the EPCIC contract are covered by Samsung. These amounts become payable by the Group not earlier than seven months after the resumption date, under the Principle Agreement with Samsung. At 31 December 2011 it is estimated that $7,058k (2010: $6,870k) in vendor obligations have been incurred by Samsung on behalf of the Group and a provision has been made for this cost. Subsequently it was agreed in the 2011 Preliminary Agreement that upon FID for the Gulf LNG Project, these amounts and the timing of payments would be restructured. The 2011 Preliminary Agreement also covered FEED related costs for the Gulf LNG Project and costs of $17,973k have been estimated as being incurred by Samsung for the Group and funded per the Preliminary Agreement by applying funds previously received as instalments from the Group. While the Preliminary Agreement has lapsed, in the case of agreement for Alternative Deployment, the Company expects certain amounts paid by Samsung on behalf of the Group would be offset against paid in instalments. In addition a $69k (2010: $138k) provision for the property lease liabilities is included, based on a fair value allocation on the lease acquired by FLEX LNG Management Limited. It is believed that the carrying values and fair values for the other financial liabilities are the same.

Current liabilities include a $10.0m short term loan repayable in Q1 2012. In 2012 the Company notified Samsung to set off the amount against the shipbuilding instalments paid in by the Company.

Note 15: Related parties

15.1 Options and warrants

Hansa LNG Limited, a company controlled by the founders, has been issued with options and warrants as detailed in note 13. The 2011 P&L cost was warrants $1,847k, (2010- $1,536k) and options $262k, (2010 - $230k).

15.2 Shares held by current members of the Board, as at 31/12/2011

Board Member	2011	2010
David McManus	**0**	0
Ian Beveridge	**250,000**	250,000
Philip Fjeld	**69,615**	40,083
Scott Pearl	**496,615**	467,083
Hiromichi Aoki	**0**	0
Eiji Wakiwaka	**0**	0
Christopher Pittinger	**0**	0
Total	**816,230**	757,166

Note: These amounts exclude the 280,761 shares that had not been issued as at 31/12/2011, per note 17.2.

Note 16: Commitments and contingencies

16.1 Guarantees

On 8 August 2008 FLEX LNG Management Limited entered into a ten year lease agreement on a property lease in London, which is denominated in GBP. The Company has guaranteed to cover the provisions of the lease should FLEX LNG Management Limited fail to comply with the obligations under the lease. The future rental payments under the lease are $1.6m (2010: $1.8m).

Under the EPCIC contract between M-FLEX 1 Limited and Samsung, the Company has provided a guarantee for the liquidated damages should M-FLEX 1 Limited cancel the EPCIC contract or Samsung terminate due to M-FLEX 1 Limited's default. This liability equals 8% of remaining and unpaid sums under the EPCIC contract, approximately $42m at 31 December 2011 (2010: $45m). Under the Principle Agreement with Samsung all liabilities with Samsung under the four ship building and EPCIC contracts are joint and several between the four companies and FLEX LNG, until funding is obtained for one vessel, or a contract with a third party for use, has been secured. The joint and several structure is also expected to be covered as part of the negotiations for the Alternative Deployment. Until 31 January 2012 the agreements excused the continued delay in the instalments previously due under the original ship building contracts, see also note 17.

16.2 Operating lease commitments, lessee

Subsidiaries have entered into leases on commercial property. The leases have average remaining lives of 0.8, 0.8 and 6.6 years and are denominated in GBP and NOK. The leases are non-cancellable. The two shorter leases have no rent review prior to expiry; the longer lease has an upward only review due five years before expiry. The future rental payable under the leases as at 31 December 2011 is as follows;

(USD 000)	**Group 2011**	Group 2010
Within one year	**432**	438
After one year but not more than five years	**956**	1,039
More than five years	**383**	619
Total	**1,771**	2,096

Lease payments made during the year were $493k (2010: $506k).

16.3 Capital commitments - Samsung

At 31 December 2011, the Group had capital payment commitments of $2,500m (Hulls - $1,776m units 1-4, Topside - $724m unit 1) on the contracts with Samsung. The payment profile, based on a 30 June 2010 resumption date, the Samsung 2009 Principle Agreement and expected design and commissioning at that point would have been: 2010 $143m; 2011 $411m; 2012 $837m; 2013 $404m; and 2014 $705m.

Under the 2011 Preliminary Agreement with Samsung, the parties had agreed that no payments, including those payable in 2010 and 2011 were due in the FEED phase and that the intent was to restructure the contracts once FID is taken in relation to the Gulf LNG Project, whereupon the 2009 Principle Agreement would then become null and void. At 15 December 2011 a positive FID was not achieved and the waiver was extended to 31 January 2012, at which point the 2011 Preliminary Agreement lapsed and terms of the 2009 Principle Agreement were reinstated (additional details as to which are set forth in the 2009 statutory accounts).

Note 16: Commitments and contingencies (continued)

16.4 Capital commitments – Minza Limited.
Given the lapse of the option to purchase Minza in 2010, there is no remaining commitment in relation to the previous purchase payments.

Note 17: Subsequent events / after balance sheet date

17.1 Discussions with Samsung Heavy Industries
In 2012 the 2011 Preliminary Agreement lapsed and the terms of the 2009 Principle Agreement were automatically reinstated. Since January 2012 FLEX LNG and Samsung have expanded the scope of discussions concerning restructuring of the existing four New Building contracts to include negotiations for the Alternative Deployment, including to permit the construction of LNG carrier and/or regassification vessels. These discussions are ongoing. In addition in 2012 the Company notified Samsung to set off the $10m short term loan against the shipbuilding instalments paid in by the Company.

17.2 Shares
In February 2012 the Company issued 280,761 additional shares to cover 50% to 100% of the Director's remuneration from the ASM to the 2011 yearend.

Note 18: Financing

In the event of a positive FID on the Gulf LNG Project, given the lapse of the 2011 Preliminary Agreement the Company would need to agree a revised instalment profile with Samsung for the FLNG unit. The Company would then need to raise financing for both working capital and instalment payments, as necessary, to meet the agreed profile, including the final instalment.

Any agreement with Samsung on the amount of capital transferred for Alternative Deployment will depend on a number of factors that are not directly under the control of the Group (including the commercial terms for the Alternative Deployment, exchange rates and restructuring costs). In the event that Samsung and FLEX LNG agree to pursue an Alternative Deployment, the Company expects there to be a number of financing alternatives for raising working capital and instalment requirements, as required.

There can be no assurance that agreement will be reached with Samsung or that it will be reached in a manner that is favourable for the Company. In the event that no agreement is reached with Samsung on restructuring of the LNG Producer contracts and/or the Alternative Deployment, the Company will need to consider alternative options open to the Company as well as the timing for raising additional working capital. Given the lapse of the 2011 Preliminary Agreement with Samsung, the terms of 2009 Principle Agreement are automatically reinstated with the instalment terms as before.

In all cases where the Company requires additional funding, there can be no assurance that such funds may be raised on terms that are reasonable if at all.

Note 19: Going Concern

The financial statements have been prepared based on the going concern assumption, which contemplates the realisation of assets and liabilities as part of the normal business course.

In the event of FID on the Gulf LNG Project, given the lapse of the 2011 Preliminary Agreement, the Company would need to agree a revised instalment profile with Samsung for the FLNG unit. The Company would then need to raise financing for both working capital, as necessary, and instalment payments to meet the agreed profile, including the final instalment.

In the event that Samsung and FLEX LNG agree to pursue an Alternative Deployment the Company expects there to be a number of financing alternatives for raising working capital and instalment requirements; this will depend, among other things, on the number of vessels ordered, the debt equity ratio, level of instalments available for redeployment, economic terms of utilisation and final capital cost. In the meantime, at current run rates, the Company expects to have sufficient working capital into 2013.

There can be no assurance that agreement will be reached with Samsung or that they will be reached in a manner that is favorable for the Company. In the event no agreement is reached with Samsung on restructuring of the LNG Producer contracts and/or the Alternative Deployment, the Company will need to consider alternative options open to the Company as well as the timing for raising additional working capital.

In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable if at all.

In May 2011 the Company issued 11,315,080 shares to IOC and PACLNG at an average price of NOK 4.59 and thereby raised $9.3m of additional capital. In addition a short term loan of $10.0m was raised from Samsung and is due for repayment at the end of Q1 2012. In April 2012 the Company notified Samsung to set off the amount against the shipbuilding instalments paid in by the Company.

Considering the above the Board believes that the going concern assumption currently remains appropriate for the Group, and expects to have sufficient working capital at current run rates, into 2013.

The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties detailed in the report.

Note 20: Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme considers the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

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Note 20: Financial risk management objectives and policies (continued)

Currency risk
The value of monetary assets and liabilities denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. The Group has historically raised its funding in USD, with the share price denominated in NOK, but with the proceeds being fixed into USD. The main capital commitments of the Group are to Samsung. Under the ship building contracts ("SBC's") the lump-sum price has been fixed in USD. Currently the EPCIC contract is on a reimbursable basis and the Group is exposed to the underlying billing currencies of relevant vendors. These billings are presently relatively small.

According to Samsung, it has entered into a number of USD/WON and USD/EUR hedges in relation to the SBC's and EPCIC contracts. Either upon restructuring the contracts at FID, following agreement for Alternative Deployment of capital, or before as part of a negotiated restructuring of the contracts, the hedges would need to be amended to match the revised cash flow profile. In the meantime the Company and Samsung are discussing the extent of the Company's liability for these foreign currency hedges. Apportionment of such liability has not yet been agreed.

Following FID for a LNGP, or on Alternative Deployment of capital, the Group expects only to remain exposed to currency risk on change requests and variations, where the underlying cost is not in USD, alternatively the Company might elect for a multi-currency contract with Samsung and would then remain exposed to the underlying currency exposures of the contract.

Additionally the Group incurs overhead costs in GBP and NOK. These exposures are not currently hedged. The Group's shares are traded in NOK. The NOK trading price is impacted by the underlying activities of the Group, which are primarily denominated in USD. Currency fluctuations relative to the NOK of an investor's currency of reference may also adversely affect the value of an investor's investments.

Interest rate risk
The Group currently has interest bearing assets. Amounts are placed on deposit for periods to secure higher returns, while balancing the need to access funds as required. The interest bearing liabilities are on a fixed interest rate. In addition, as previously noted, the Group in 2011 received a short term working capital loan from Samsung, which had a fixed rate of interest for its loan period.

Liquidity risk
The Group monitors its risk to a shortage of funds using a cash modelling forecast. This model considers the maturity of payment profiles and projected cash flows required to fund the operations. Historically funds have been raised via equity issuance. Market conditions can have a significant impact on the ability to raise equity finance, while new equity financing may be dilutive to existing shareholders. Additional support was, as previously noted, provided by Samsung in 2011 in the form of a short term loan and funding certain EPCIC and FEED liabilities. In 2012 the Company notified Samsung to set off the amount of the short term loan against the shipbuilding instalments paid in by the Company.

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Note 20: Financial risk management objectives and policies (continued)

Liquidity risk (continued)
The Group's objective is to maintain a balance between continuity of funding and flexibility through the raising of finance from investors. The Group does not currently have any bank overdrafts and bank loans. Liquidity management services are provided to the Group under the management agreement. Samsung provided a short term working capital loan to the Company in 2011 as previously noted.

Upon a company in the Group concluding a contract for the processing of LNG or a contract of employment of one of the vessels it would look to raise project loan finance to cover the majority of the capital costs for the asset. In the event of FID on the Gulf LNG Project, given the lapse of the 2011 Preliminary Agreement, the Company would need to agree a revised instalment profile with Samsung for the FLNG unit. The Company would then need to raise financing for both working capital and instalment payments, as necessary, to meet the agreed profile, including the final instalment. In the event that Samsung and FLEX LNG agree to pursue an Alternative Deployment, the Company expects there to be a number of financing alternatives for raising working capital and instalment requirements.

There can be no assurance that agreement will be reached with Samsung or that they will be reached in a manner that is favourable for the Company. In the event no agreement is reached with Samsung on restructuring of the LNG Producer contracts and/or the Alternative Deployment, the Company will need to consider alternative options open to the Company as well as the timing for raising additional working capital.

Credit risk
The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Currently the main exposure to credit risk is on cash and advance payments to Samsung. Cash funds are currently placed with HSBC, Lloyds TSB and Barclays. Samsung has previously provided irrevocable refund guarantee for the prepayments made by the Group, in the case of non delivery of the vessels, as covered in note 8.

Operational risk
Currently the Group has not reached FID for any of the FLEX LNG vessels or for the Alternative Deployment option. Operational risks mainly relate to expenditure being higher than forecast, risks to the environment and risks to the safety for staff. At a commercial level it also includes the settlement of the contract restructure with Samsung on reasonable terms; agreeing the level of remaining capital with Samsung on reasonable terms; achieving FID on the Gulf LNG Project, or agreement to the Alternative Deployment and the economics of such Alternative Deployment; the contractual consequences if this does not occur; potential Samsung claims under its agreement with the Company; as it relates to FID on the Gulf LNG Project, if any, the political situation in PNG; as it relates to FID on the Gulf LNG Project, if any, any IOC/PACLNG contractual arrangements being on economically viable terms; obtaining finance and working capital at reasonable terms; and being able to secure employment contracts on reasonable terms for alternative vessels constructed by Samsung.

Ernst & Young

Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting in FLEX LNG Ltd

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of FLEX LNG Ltd, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company and the Group comprise the statement of financial position as at 31 December 2011, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' responsibility for the financial statements

The Board of Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion

In our opinion, the financial statements of FLEX LNG Ltd present fairly, in all material respects, the financial position of the Parent Company and the Group as of 31 December 2011 and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 19 to the financial statements that indicate that the Company is dependent on certain conditions to be fulfilled to continue as a going concern. The financial statements do not reflect impairment charges that might be required if the Company was liquidated or the assets sold in a distressed situation.

Bergen, 26 April 2012
ERNST & YOUNG AS

Jørund Haga Indrehus
State Authorised Public Accountant (Norway)